NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS

Congressional Information Service, Inc
Washington, D.C.

S. Hrg. 98-995

OVERSIGHT OF FOOD AND NUTRITION SERVICE PROGRAMS: FOOD STAMPS, CHILD NUTRITION, AND COMMODITY DISTRIBUTION

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

APRIL 25, 1984

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
37-585 O WASHINGTON : 1984

S161-36

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas
RICHARD G. LUGAR, Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
ROGER W. JEPSEN, Iowa
PAULA HAWKINS, Florida
MARK ANDREWS, North Dakota
PETE WILSON, California
ORRIN G. HATCH, Utah

WALTER D. HUDDLESTON, Kentucky
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
ALAN J. DIXON, Illinois
HOWELL HEFLIN, Alabama

GEORGE S. DUNLOP, *Chief of Staff*
J. ROBERT FRANKS, *General Counsel*
CARL P. ROSE, *General Counsel and Staff Director for the Minority*

CONTENTS

Page
Melcher, Hon. John, a U.S. Senator from Montana, opening statement 1

CHRONOLOGICAL LIST OF WITNESSES

Jarratt, Mary C., Assistant Secretary for Food and Consumer Services, accompanied by Virgil Conrad, Deputy Administrator for Family Nutrition Programs, Food and Nutrition Services, and George Braley, Deputy Administrator for Special Nutrition Programs, U.S. Department of Agriculture 2
  Written questions from Senator Jesse Helms to Assistant Secretary Jarratt and answers thereto 16
Burke, Thomas J., Assistant Inspector General for Investigations, and Donn E. Adkisson, Assistant Inspector General for Audit, Office of Inspector General, U.S. Department of Agriculture 21
  Additional questions submitted to the Office of Inspector General by Senator Jesse Helms and answers thereto 25
Crowley, Brian P., senior associate director, Resources, Community, and Economic Development Division, U.S. General Accounting Office, accompanied by Stanley S. Sargol, Group Director; Mel W. Mench, Food Stamp Audit Manager; Ralph Lowry, WIC Audit Manager, and Keith Fultz, Senior Group Director 28
  Additional questions submitted to Brian P. Crowley, U.S. General Accounting Office, by Senator Jesse Helms and answers thereto 36

APPENDIX

Helms, Hon. Jesse, a U.S. Senator from North Carolina, statement 43
Dole, Hon. Bob, a U.S. Senator from Kansas, statement 44
Jarratt, Mary C., Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture, testimony of 46
Crowley, Brian P., Senior Associate Director, Resources, Community, and Economic Development, U.S. General Accounting Office, statement 52
  Digest from the GAO April 25, 1984 report entitled "Improved Administration of Special Surplus Dairy Product Distribution Program Needed" 61

OVERSIGHT OF FOOD AND NUTRITION SERVICE PROGRAMS: FOOD STAMPS, CHILD NUTRITION, AND COMMODITY DISTRIBUTION

WEDNESDAY, APRIL 25, 1984

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:30 a.m., in room SR-328A, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms and Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The committee will come to order.

The chairman has been detained in a meeting downtown and will be here approximately within the next 15 to 20 minutes. However, he has asked that I open the hearing, so we can get on with the business of the committee.

I am going to submit the chairman's statement for the record.[1]

I would like to say at the outset that I have glanced through these statements that have been submitted while we have been waiting for this meeting to get on, and I think some of the points are well made. However, I find it a little bit odd that we are talking about going into a mandatory work incentive program when we have not had much results out of those voluntary ones, or the pilot ones that were set up. So I would like some enlargement on that, Mary, when you get to that point. I think that will be in your testimony.

Second, I think everybody is going to agree on this idea that the States cannot have that big of an error rate, but let us see how we are going to force them and emphasize how we are going to make these States come up with a smaller error rate. I guess that your goal is a 5-percent error rate for the States?

Ms. JARRATT. Well, the threshold under current law becomes 5 percent, this coming fiscal year; under this proposal, it would be 3 percent.

Senator MELCHER. You would tighten it up, then, further, even though it never got below 8 percent—it is at 8 percent right now.

Ms. JARRATT. Moving to 3 percent would make food stamps consistent with AFDC and medicaid. The error rate is lower, sir, than it has been for a number of years. In fact, with the greatest growth in the program that we have seen during the recession and so forth, the error rate has come down dramatically. I think there are some things that we need to do at the Federal level to help the States achieve that. I do think the key to getting error rates down, too, is to getting State involvement in money for actual benefits in this issue, instead of just administrative expenses.

---

[1] See p. 43 for the prepared statement of Senator Helms.

Senator MELCHER. Well, why don't you begin any way you want, Mary. You do not need to read this into the record unless you want to, but emphasize the points that you think are most important.

STATEMENT OF MARY C. JARRATT, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, ACCOMPANIED BY VIRGIL CONRAD, DEPUTY ADMINISTRATOR FOR FAMILY NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICES, AND GEORGE BRALEY, DEPUTY ADMINISTRATOR FOR SPECIAL NUTRITION PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Ms. JARRATT. Well, I will try to quickly summarize for you, Senator.[2]

First of all, I would say that I am accompanied by George Braley, second from my left, and Virgil Conrad, who are the deputies for the Child Nutrition and Food Stamp Programs, respectively, and we also have other FNS people here, too, to assist in responding to the questions.

I think the programs that we have in the Food and Nutrition Service have functioned quite well during this economic recession, and now that the economy is improving, we have had on average 21 million people monthly participating in the Food Stamp Program, which is the major program for food relief for families, but that means that we have had about 36 million participating on an annual basis. That means that 1 American in 6, roughly, participated in the Food Stamp Program last fiscal year at some point because of need. So I think the program is very responsive to need.

Also, the gap between the allotment and the cost of the thrifty food plan has been narrowing dramatically. In 1980, the gap was $11.78. In 1983, because inflation is so much lower, the average gap between the benefit and the maximum allotment is less than $1. So the program is very timely, very responsive to current need.

Also, we would like to highlight for you this business about the error rates. The error rate at our latest collection period according to our most recent data is down in the range of 8 to 8½ percent. This is a preliminary number and can change because there is quite a lag between the collection of data and the notification of the States about their error amounts. We cannot officially release the error rate until we verify the data. But we are quite proud that the error rate has come down from over 10 percent in 1981 to the range of 8 to 8½ percent with our latest collection period. I think that is a tremendous compliment to both the States and the Federal effort that we have been making to reduce the errors.

Of course, it is important that we maintain the dual objective of providing benefits in a timely manner to the recipients and to protect the image of the program, whether it is in additional fraud prosecution or reducing the error rate. It is that dual objective that protects the program in the eyes of the taxpayer.

---

[2] See p. 46 for the prepared statement of Ms. Jarratt.

With our fiscal year 1985 budget submission, we are projecting an unemployment rate of 7.8 percent, which is conservative, because unemployment in February of this year was already down to 7.8 percent. We are anticipating that the program would cover about 20 million people each month, somewhat down from what we had last fiscal year.

Of course, with the revival of the economy and the recovery that we are seeing, jobs are most important for all people, low-income people included, and that would mean that our caseload would go down somewhat.

We think, confronting the rampant budget deficit for the next years, that the assistance of about 95 million meals a day in some way by the Federal Government is quite a substantial effort and does not need to be expanded upon. This in no way accounts for the State and local contribution that goes to feed needy people each day.

I would like to turn quickly to the major legislative proposals that you have mentioned. We do have proposals to provide categorical eligibility for pure AFDC households, about one in every four food stamp households. This is a simplification process, because the standards are so compatible now. It would give the caseworkers more time to devote to other activities.

We are proposing the community work experience program on a mandatory basis. That is projected to save $85 million in the upcoming fiscal year. We do have some more specific results of the workfare projects, which I will ask Mr. Conrad to go into in just a moment. Not complying with this provision would disqualify the households for 2 months. We think it is important to target the households that are most likely to be able to work and to get some commitment for being able to pay off benefits, if one is not able to find a job otherwise, in a form of work that would be to the community's benefit.

The sanction system that we mentioned is currently at 7 percent threshold, to go down to 5 percent under current law, in October of this year. This proposal would make it 3 percent, effective October 1984, and have more compatibility with AFDC and medicaid. The States would have responsibility for the full value of payments issued in excess of the standard, and not just a sanction on their administrative expenses.

We think the proposals will certainly improve management and reduce the costs, and yet not hamper the benefits or jeopardize the benefits of any needy recipient.

In child nutrition, the proposals are somewhat more lengthy, but perhaps less complex. We are proposing to extend the authorization for State administrative expenses for 1 year. Currently, they are authorized for a 2-year period. The purpose of this proposal is simply to limit the amount of unused funding that States can carry over from one fiscal year to the next.

The verification of free and reduced-price applications has gone very well this past school year, and the error rate in the School Lunch Program is down. About 1 lunch in 5 was issued incorrectly.

The error rate is down more in the magnitude of 17 percent now. We do have money in this proposal to reimburse food stamp offices for the cost of giving notifications of food stamp—eligibile households which certifies their eligibility for the program. This document then would be provided to school food authorities, so that the household would automatically be identified for the authority, and there would be no need to verify a food stamp household's income.

We are proposing an independent special assistance factor subsidy for the reduced-price meal. This is because we think that the subsidy should increase as inflation increases. The current law, as you know, has the reduced subsidy at 40 cents less than the free lunch and 30 cents less for breakfast. Thus, the reduced-price meals receive a higher percentage increase when the adjustment for inflation is made.

We propose to consolidate the Summer Food Program and the Child Care Program into a grant. They would be funded at the projected expenditure level for 1985 if the programs were left intact. We are proposing to fund the meal assistance for Head Start centers, at present under the Child Care Feeding Program, through increased funding at HHS and the Head Start budget. We think that the grant would give more flexibility for the States to target those children most in need, and also would reduce the complexity of administering the program.

We also propose to discontinue the NET Program, because that program has spent around $90 million since it originally was authorized. It was seed money. The States have had that money and have had the materials that they have developed to use. We think the effort is well established and does not need Federal funding anymore.

We propose to eliminate the direct administration of the Child Nutrition Programs. This is really a burden on our regional offices. States are closer to the people they serve, and they should take the responsibility to administer those programs. It is an inappropriate use of Federal resources to directly administer the program at the local level.

We would extend for a year the authorization to use section 32 funds to provide the commodities for School Lunch Programs. Entitlements would be based on the actual number of meals served during the previous year, instead of the estimate of meals that are projected to be served in the upcoming year. This gives a greater assurance of the level of assistance to the locality and should not be controversial.

We would extend the WIC Program for 1 year, and would eliminate the provision to require regular reallocation of program funds. The WIC Program spends almost at peak capacity, and we think that it is unnecessary to reallocate periodically within the year. There is a very small pot of money that we are using for the reallocation.

We would reduce the amount of administrative funding in WIC from 20 to 18 percent. We are not saying to the States how that must be achieved. They will have the flexibility to design savings. WIC does have the highest administrative cost of any of our feeding programs, and we think that it could be done at a lower level of administrative costs.

This concludes my formal remarks, Senator Melcher, and we would be happy to answer any specific questions.

Senator **Melcher**. Well, I am going to ask one thing right away on Child Nutrition Programs and the School Lunch Program. You mentioned section 32 funds. That is easily understood. You distribute that as money. Where do you add in the Commodity Credit Corporation commodities, all the cheese, for instance, that we have got and the butter, on the School Lunch Program. How do you handle that?

Ms. **Jarratt**. The items that we declare bonus are given to schools for all children on a use-without-waste basis, and it is currently averaging 10 cents a meal. Most of that is dairy, but there is some honey and other bonus commodities in there.

The projected free meal entitlement is going to be $1.38, almost $1.39, next year, so that would be 10 cents additional for children in all categories of participation.

Senator **Melcher**. You have already lost me, Mary. How do you handle it? You say 10 cents is the bonus. Do you mean you give them cash, or you give them commodities?

Ms. **Jarratt**. Sir, we give them the commodities to the extent that they can use them without wasting them. They can have as much as they can use, and it is averaging about 10 cents a meal per child, in addition to what they are entitled to.

Senator **Melcher**. Well, let's see. We have got 27 million school lunches a day, 5 days a week, during the school months; is that right?

Ms. **Jarratt**. Well, it is more like 23½ to 24 million meals.

Senator **Melcher**. Yes. It was 27 million, but you cut it back to 23 million.

Ms. **Jarratt**. Enrollments have declined, but that is right.

Senator **Melcher**. This is everybody who wants to eat there, right? Can you get a bonus if you are an affluent kid?

Ms. **Jarratt**. Yes. All children get the bonus commodities regardless of income range.

Senator **Melcher**. Does this count the Special Milk Program?

Ms. **Jarratt**. No, sir, it does not, because milk is——

Senator **Melcher**. OK. So you are actually moving, you think, 10 cents worth of cheese, butter, and honey.

Ms. **Jarratt**. Cornmeal is one of the additional bonus commodities, too. But the reason for the increased consumption at the bonus level is that a wider variety of dairy commodities are being consumed in the meal in addition to the milk. Milk is one of the five components in the type A meal, but with all the processing capacity and so forth, the States are using nonfat dry milk to make ice cream, and they are making a variety of things that they serve in the meal, for baking or whatever.

Senator **Melcher**. Well, it is sure nice to have all this stuff. I do not think we ever think how nice it is. We never hear too many people lament having all this surplus, and I think we ought to be thankful we have it. I am not sure what this means, since we seem to be getting more cheese in storage and butter in storage than we are distributing, and I do not quite understand that.

Ms. **Jarratt**. We are certainly not trying to escalate the inventory, Senator Melcher.

Senator MELCHER. No, I know we are not. But I am just wondering where, between CCC and the other segments of the Department of Agriculture, where the flaw is that people cannot seem to get enough to eat, although we have got a lot of it in dairy products, at least.

Ms. JARRATT. Schools are not the only outlet for the dairy commodities.

Senator MELCHER. I know they are not the only outlets. By law, there are lots of outlets, but despite the law, we do not seem to have the cheese and butter where people are at. I am satisfied from what you are telling me—and I hope I am not jumping to any false conclusions, that as far as school lunches are concerned, you are using what is available and providing it without any hangups so these schools can have them, and therefore the kids can get a better deal nutritionwise.

Ms. JARRATT. That is right. It supplements every child's meal 10 cents a day.

Senator MELCHER. Now, you want to establish categorical eligibility for food stamps for those people now on AFDC. Why haven't we done that before? We talked about it for several years that I can recall. What is the hangup?

Ms. JARRATT. It was in the law, I understand, prior to 1977, and was taken out. But we feel that there are so many aspects of AFDC that are becoming parallel to the requirements in food stamps, and the benefits are usually administered from the same office, that we think it makes sense to consolidate administrative activities and to use the same application for the household, for a period——

Senator MELCHER. I know, I know, but what is the hangup? Who objects to it? You do not know?

Ms. JARRATT. Well, I am not sure that it is going to be that controversial this year.

Senator MELCHER. Do the States like it?

Ms. JARRATT. I think they will like it, because it will reduce the amount of time that they consume in processing the applications, and they can devote their time to other things.

Senator MELCHER. I would think so, too. I am just a little bit mystified in my own mind why we are still talking about it, why it was not done last year or the year before, and who does not like it. I am just trying to clear it up in my own mind.

Ms. JARRATT. Well, I think that there was some question, and a valid question, that causes us to be engaged in a demonstration project now to review the idea of giving categorical eligibility or a simplified application for AFDC, medicaid, SSI, and food stamps, since they are all coming out of the same office, essentially. It is a program simplification issue, but you want to make sure you are not impacting the costs too dramatically one way or the other. So I think that was the reason for proceeding cautiously.

Senator MELCHER. I see where you want to eliminate NET. I am interested to hear what the States say about that, and get some feedback from the States.

Second, I do not know why we take much stock, from this brief testimony, in this idea that we would eliminate direct Federal administration of the Child Nutrition Programs. They are there for a purpose. The States did not do it, and we thought it was still a Federal responsibility. Your testimony is so brief here, it does not really say, if the Federal Government does not do it, whether those States are going to have those Child Nutrition Programs or not.

Ms. JARRATT. We cannot imagine why a State would not want the benefit for their citizens, and administer it like the bulk of the rest of the population, because if it is a good benefit, the States ought to have some vested interest in administering it locally. Most people feel that way, and we think it is an undue drain on Federal resources to try to go in and make contacts with the local school board or other local agencies to administer a program, when, really, it should have a State's responsibility.

Senator MELCHER. I do not disagree, but I do not see anything in your testimony to demonstrate that these States are going to do that which they have not been doing. I well know why Congress directed that if the States do not do it, the Federal Government is going to do it, because they are thinking about the children. I do not see, from your brief testimony here, any evidence that if the Federal Government backs out of it, the States are going to pick it up.

Ms. JARRATT. Well, it is not that the Federal Government is not concerned about the children. We think the States ought to be just as concerned in administering——

Senator MELCHER. I do, too, but what if they are not? That is the point. What is there to demonstrate?

Ms. JARRATT. Well, then, I think they are the ones to answer.

Senator MELCHER. Well, you know, you are working for the Federal Government, and so am I.

I guess what I am saying, Mary, is this. We would have to have—at least I would, for my vote—have to have some evidence that the States, yes indeed, are going to pick it up. But who can quibble or quarrel with the fact that, yes, they ought to; I just want to know that they are.

Ms. JARRATT. Well, if they are not confronted with it, they probably are not going to volunteer, since they have a good deal going now.

Senator MELCHER. Well, I don't know. There are always two sides to every coin. The reason that most States do it is because they do not like the way the Federal Government does it. So they step in there in between. I have never been convinced that that is necessarily beneficial to anybody, because then, you have got two bureaucracies, and you wonder what falls through the cracks. But nevertheless, most States do it. I guess my concern would be that if the Federal Government is going to drop it, does that mean the States are going to pick it up?

Ms. JARRATT. I think it will mean that the States will pick it up.

Senator MELCHER. Well, I think, at least to get my vote, Mary, you are going to have to give me more stuff to show me that, so I can know that.

Now, let's move on to this work requirement. It seems rather odd to me that in this, the fourth year of President Reagan's administration the administration is just getting their act in order to talk about work requirements for welfare people. Has this administration given us a workfare program of some type for welfare people like Nixon did?

Ms. **Jarratt**. We have proposed a mandatory work requirement.

Senator **Melcher**. So you have not come up with one of those, even though the House of Representatives twice voted on and passed the Nixon proposal in the early seventies. So this administration is going to come at it through the Food Stamp Program in the Department of Agriculture.

Ms. **Jarratt**. Well, the AFDC Program is proposing a program that this one is modeled after, Senator Melcher, and I will ask Mr. Conrad to speak to that.

Senator **Melcher**. Well, yes, let's have something from Mr. Conrad on this so I can get enlightened. I may have missed a lot of things.

Mr. **Conrad**. Senator, we have been studying this issue since our first set of demonstrations in July of 1979 and 1980. We continued those sites and had 14 study sites in December of 1980 through September of 1982, and some of those sites have continued.

The concept of the community workfare, and what we have tried to do is design some flexibility for the States, even though we would make it mandatory. The States would only be required at any one time to provide community work opportunities or jobs for 75 percent of the eligible pool. Now, that is a significant change. That would give the States the flexibility if they had recipients who had transportation problems that could not get to work, if they had problems of unusually high unemployment in some parts of the State, not to be required to have a workfare project. It gives States some flexibility.

Second, it comes down to basically a philosophical issue where we believe—and our demonstrations have shown—that individuals who are given the opportunity to work, gain work experience; it gives them the opportunity to contribute work to their community. It enables them to provide a service for the welfare benefits that they receive back to their community. Some of our research and demonstrations in California show that the women who go through these programs end up getting jobs that pay more money than if they did not have the work experience. The key is how you structure the program.

A recent article from an AFDC project in the State of North Carolina showed that where, if it is structured properly, if you take the individuals and you first give them counseling about being a good employee, about good employee relations, if you have them tied in to the employment security office, where they are given an opportunity to go for job interviews, and if you put them in a project where they are gaining work experience every day, the payoff is exemplified by the lady in this article who was getting $202 a month in AFDC benefits, and she went into the work market making over $700 a month. So that kind of concept, if it is put together, will work. A workfare project, if it is just "make work," just for the sake of going out to work, if participants are not taught job skills, and if they are not taught how to go out and interview for a job, that will not enable participants to get a job. But if workfare is structured in the manner that I desribed, it is very successful. These demonstrations, were conducted in the State of South Carolina when I was the commissioner there, in Berkeley and Greenville County, and the local people liked them very much.

But the problem that we are dealing with is illustrated by the State of Florida, where the local general assembly is debating the merits of whether it should be statewide, or it should be local on a voluntary basis. We feel that we are going to have to provide some impetus on the national level, saying that these programs need to be statewide and that they need to be reasonable. We only ask you to do 75 percent of your eligible pool, so you have the flexibility with the people. And the bottom line is, if workfare is set up properly, we believe that the evidence would show or suggest that people will move into the private employment market faster.

Senator MELCHER. Well, that is a pretty big "if"—if they are set up properly. I am not arguing with anything you say. I just do not know where the resources are to set them up. I do not think you can set up a training program like you have described in North Carolina without a considerable amount of financial resources. If States have those resources, wonderful. My experience around here is that States say they do not have those resources to set up anything.

Mr. CONRAD. I believe that there are two benefits that the States get out of the workfare projects. The first direct benefit they get is a reduction in the outlay of their costs for the aid to families with dependent children benefit. That is the first one, and the second one, of course, they get the increased revenue when a person goes to work. So it is a two-pronged payoff. We pay 100 percent of the benefits in the Food Stamp Program, and so it is not just a humanitarian effort on our part to try and enable people to connect with the work environment. We believe that the States need to have a little bit of incentive, in fact, in the requirement. With our program, they are going to be reluctant to invest some of their resources to help their citizens, for which we are paying the full 100 percent of the food stamp benefits if they are not working, move into the employment market.

Senator MELCHER. I do not want to sound negative on what you have said, because what you have said has been very constructive. I just find myself reluctant to believe that we have gotten ourselves in a position, through food stamps, to provide the mechanism to accomplish what you have described. If a State can provide this, I think it would be most meaningful in the lives of a tremendous number of people. But you really have stressed the key part, and that is job training.

Mr. CONRAD. For job training and job search, the Federal Government is willing to be an equal partner in sharing administrative costs with the States. We are willing to pay 50 percent of these costs.

Senator MELCHER. I think that is good, and I think it is highly constructive. I just do not know that we can move into it with food stamps. I was very interested years ago in what we did with the Nixon bill.

Mr. CONRAD. In the AFDC families.

Senator MELCHER. Yes. As I said, the House twice passed it. But it carried with it the important element of job training, which was key, as well as child care facilities, plus the incentive of keeping all of what you made but only having your welfare check reduced 50 cents on the dollar. It had the key elements. What you are proposing here are very similar to that, but just limited to food stamps. I do not want to sound negative.

Mr. CONRAD. I understand, Senator.

Senator MELCHER. If we can make it work, I am for it. But I doubt we can get it all in order this year. This is a big project, and a very meaningful one if we can do it.

Mr. CONRAD. We have been very careful to not create an additional burden on the States, to construct our workfare project so that it would be compatible exactly with the AFDC Program, so that the same site and can be used. I would just add one or two other comments. The average work time that a food stamp recipient would have to spend on a work project could only be 35 hours per month, leaving ample time, certainly, to look for other work. We would not require anyone to work more than 120 hours combined to satisfy their their food stamp and AFDC work obligations, so that we could assure time tc move and look for work in the economy, because the ultimate objective is to link participants with a job and to move them into that independent status, so we would try to provide those things.

Ms. JARRATT. It is targeted to the ones most likely to be able to get the jobs.

Senator MELCHER. Thank you very much.

[Whereupon, Senator Helms assumed the Chair.]

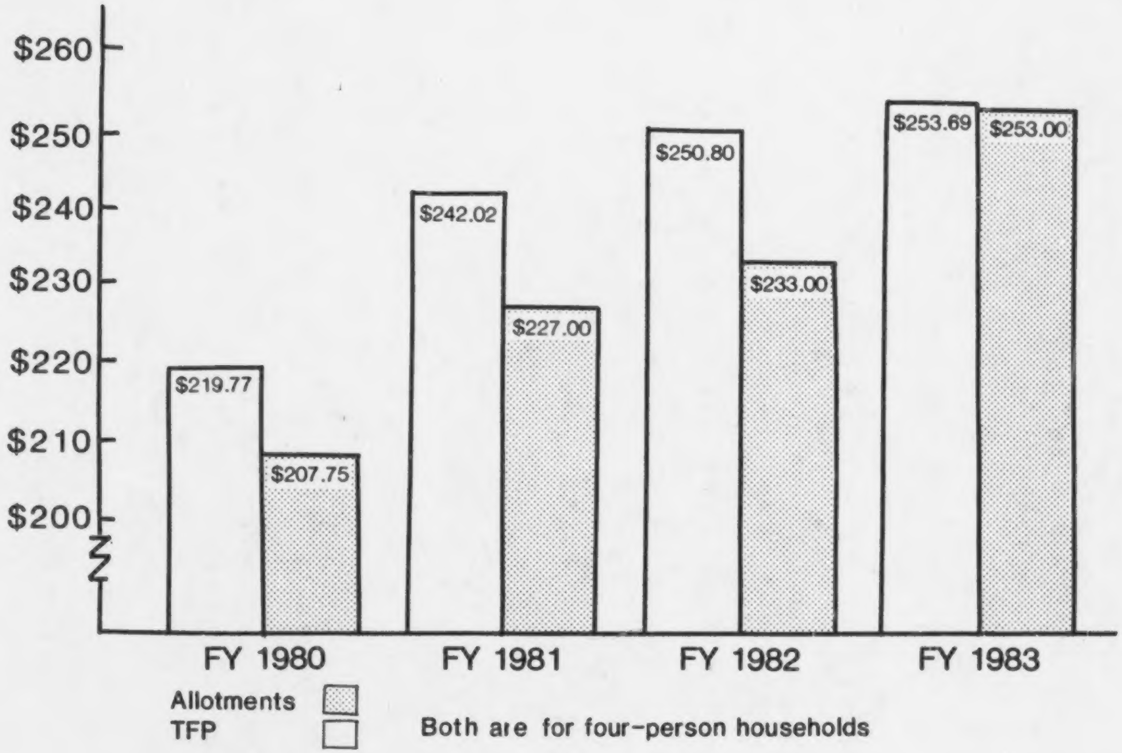
The CHAIRMAN. Senator Melcher, I appreciate your covering for me. I think this is the first time I have been late for a meeting of my own committee, but I was tied up downtown with a matter of some consequence to North Carolina. But I do appreciate it, and I apologize for being late to you folks. But I know you enjoyed Senator Melcher.

Let me ask a few questions, largely for the record. I learned a long time ago that it is wiser to ask only those questions to which you think you know the answer—at least, that is an axiom in the courtroom, though I am not a lawyer.

Tell me about the statistics that you may have, assuming that you have them, about the relative value of purchasing power of food stamps, compared to a few years ago. Did you already cover that?

Ms. JARRATT. Just in passing remarks in the general presentation before we began the questioning, Senator. We can provide a chart showing the actual coupon value and the cost of the thrifty food plan on a yearly basis for some period in time. But in 1980, for example, the cost to buy the thrifty food plan was $219.78 for a family of four. The maximum allotment for a family of four at that time was $208. In 1983, the average cost of the thrifty food plan is $253.59, and our allotment value is $253 for a family of four, so the gap has closed, within a dollar of the allotment being equal to the cost of the plan. That is because food inflation has gone down over the last several years. We will be happy to supply a year-by-year charting of that for the record.

Average Maximum Food Stamp Allotments and Thrifty Food Plan Costs FY 1980 – FY 1983



Both are for four-person households

The **Chairman**. I would think that would be important. I guess it is sort of like Mark Twain said about the weather; everybody talks about feeding the hungry, but nobody really understands a number of aspects. One is the impact of inflation; second, the impact of abuse of the program. You folks are making strides in that, but you have got a long piece to go yet. But a journey of 1,000 miles, I think somebody said, begins with the first step.

Finally, I find that my colleagues in the Senate do not really understand the enormity of the cost of overlaps, for example. I have often used the illustration of the free lunches at school and the food stamps still being given to cover those children at home. Now, somebody is being treated unfairly. If you are going to continue to give the food stamps for those duplicated meals, then what about the people who do not send their children to school? You cannot have it both ways, I tell the Senators.

What is the duplicated cost of that one thing?

Mr. **Boney**. $600 million.

The **Chairman**. $600 million. And some of the Senators gasp and they say, "It cannot be." But the slightest adjustment and tightening of the program with no intention whatsoever on the part of anybody to deprive needy people—as a matter of fact, the needy people are the ones who are being hurt the most.

Well, I believe Tom told me that you had discussed the error rate in the Food Stamp Program and its——

Ms. **Jarratt**. Its decline, yes, Senator.

The **Chairman**. Right. Now, suppose, just for the sake of consideration, that you should have a tougher error rate sanction, something like 3 percent. Would you reduce the error rate more rapidly if something like that were imposed?

Ms. **Jarratt**. I believe we would, Senator, because a lot of what is necessary for the reduction in error rate is technical assistance. We have provided that. A lot of what we still need is simplification of the program. We are still struggling with that, and we need some congressional support, more than what we have had, to simplify the program structure. But we also need State involvement in the benefit levels. That is what occurs in AFDC, and that is why other assistance programs are able to do well with a lower error threshold. They have some State commitment to the moneys that are spent, other than just administrative moneys. I think there are a number of elements in reducing the error, but that State involvement is very critical.

The **Chairman**. Well, we had Peter Grace and some of his associates here some weeks back, and we were trying to compare or contrast, as the case may be, across the board a number of Government functions, as opposed to the way businesses operate in this country. I am not sure that the private-sector system would tolerate even a 3 percent error rate, you know.

We have heard some complaints from State and local administrators who do not want to continue the monthly reporting and retrospective budget provisions which were just implemented in January. Do you still have a pretty high degree of confidence in these antifraud provisions?

Ms. **Jarratt**. Yes, Senator, we do. We have granted a number of waivers, so that currently, only about one-quarter of the food stamp caseload is subject to monthly reporting. The waivers have been granted based on what the States tell us about how monthly reporting would play with the way the errors are occurring in their States. For some States, it is more effective to apply monthly reporting to public assistance households; with others, it is not. When States can show that to our regional offices, and convince us we have granted a substantial number of waivers. A lot of people think it is an onerous paperwork requirement, and that it is confusing and befuddling. We have done a demonstration project on monthly reporting and retrospective budgeting, and we have found that once requirements are in place, the recipients could comply with them, and did not find the requirements confusing. We found that there were some participants that lost benefits, but a lot of those people should have lost benefits. There are some precautions in there to protect people from being just automatically terminated. In other words, if a report does not come in, and it looks like a household is going to be terminated, the household is given a notice; and an opportunity to make adjustments to the file. So it is not just automatic termination. We think that some of the data we are getting from the demonstration project is quite positive and indicate that monthly reporting should be retained for those types of cases where it is cost effective.

The CHAIRMAN. I saw a story in one of the papers down home, the Charlotte Observer, I think it was, which quoted Mr. Greenstein very extensively—and of course, Mr. Greenstein is always positive and sometimes right—but he was saying that all of this costs more, that it is just an added burden on the system and does not do any good. Now, I do not want to get you in a pitched battle with Mr. Greenstein, but I for one reject that notion. I will tell you something else. The administrators on the ground in North Carolina with whom I have talked, they reject what he is stating. It is propaganda. I will say that to his face, and I will say it any time it comes up, because it is just a false statement.

Ms. JARRATT. Well, there are some initial startup costs, and I think some of the confusion that people perceive about MRRB is associated with the startup element of it. It costs about 5 or 10 percent, perhaps, additionally to administer. But what you can save in the elimination of the misissued benefits for some cases should be more significant than what small amount it might cost for administration. We do think that high administrative costs—they are not that high, really—are associated with the startup. There was some confusion in Michigan, but it was associated with startup aspects of the new activity. I think Michigan is fairly content that the program is doing some good.

We will have additional data from about five or six demonstration sites coming up to you quickly.

The CHAIRMAN. Well, going back to this business of the error rate, it is significant to me that once we began cracking down, the States all of a sudden found that they could bring down the error rate. It is true in my State, and I am sure, all across the country. But it is so easy for the States to spend money that they do not have to raise. They do not have to tax people for the Food Stamp Program, and so therefore, they pay little or no attention to it until somebody up here in Washington, DC, says, "Look here, your error rate is 14 to 15 percent," or whatever. Then, all of a sudden, they find out that they can, after all, do something about it. I think it is your responsibility, and I think it is the responsibility of Congress to encourage them to do something about it.

I am not sure that I agree with all of this business of furnishing the money from the Federal taxes, taken from the people, and giving it to anybody to spend with a high tolerance of errors and mismanagement. That is all we are getting at. That is all I am getting at, and I assume that you feel the same way.

There are a lot of concerns from parochial schools that the administration proposal to eliminate direct Federal administration of Child Nutrition Programs will result in their elimination from the program. Have you made any provisions for these schools?

Ms. JARRATT. We have not, Senator. It was not in our proposal. But we would entertain a contract idea, perhaps. We would be willing to talk this over. We think that it is very important for the local people to administer these programs if they want the benefits for their citizens. The benefits are there. The vast majority of the population like the fact that they have hands-on relationship with the delivery of the programs. In school lunch, for example, we have some Federal requirements, but the locals design the meals. We think they should. We think the local participation is important. But if there is some really valid reason that they cannot, then we would entertain some kind of relief for it. But we think that some of the regionally administered programs are being carried out that way because it is a free service, and actually, it is costing a lot of money to go in and make local contacts and try to determine local food preferences and so forth, to federally administer a program in a small town that is far away from here.

The CHAIRMAN. GAO, in a report earlier this year, recommended establishment of greater guidelines in distribution of commodities to the States, about eligibility for participation in the distribution of free cheese and perhaps other commodities.

Have you implemented the GAO's recommendations, or are you working on them, or what?

Ms. JARRATT. Well, we issued interim regulations in December of last year, which required the States to use some kind of income-tested program as the focus point for the delivery of these foods to households. Most of them are using AFDC, or SSI, or medicaid, or some income-tested program. We do not think it makes sense to set up a separate income test for a program that has a relatively low dollar transfer, and we think that the use of other public assistance programs for a definition of the people who should receive it is a perfectly legitimate one, and we think that is working well.

I think the concern came about when the distribution of commodities became so high last year, and there was a large concern about displacement. Of course, the higher the income of the recipient, the greater the concern about displacement. We think that we have greatly lessened displacement concerns by applying this general kind of income test to the eligibles. Also, we are able to provide 35 million pounds of cheese and lesser amounts of other commodities a month to needy people. We think it is a useful supplement and that a big program should not be built up around what we hope is a temporary program, only to the extent that the inventory lasts.

The **Chairman**. Well, I hope it is temporary. Whatever side of the responsibility of this committee, I think that the surpluses that we are building up are just horrendous. The more we try to work on this surplus of cheese, the worse it gets.

Ms. **Jarratt**. I was just saying to Senator Melcher that the value of the free lunch this coming year will be $1.39, and the value of the bonus commodities to all children, regardless of income, is now 10 cents additional over the entitlement. I think few people realize where these foods go. I think there is a perception that we have a lot of foods that we are not distributing, which is not true. They are basically committed for other programs. But the amount of dairy usage in schools, for emergency feedings and every other kind of feeding program is quite substantial now.

The **Chairman**. Let us go back to that GAO report. This is another thing that is confused in the minds of a lot of people. They see it in terms of black and white, poor people and not poor people. Even a lot of Senators say, well, it is no big thing, these free lunch programs or reduced-price lunches, or whatever, when you look at the cost of one of them it is not much, but when you start multiplying it by the millions, then it becomes a concern of Pete Domenici and everybody else who is concerned about the budget. On the one hand, they are screaming at the administration to close the deficit, and on the other hand, they say: "Well, just give away more." You cannot have it both ways. But that is precisely the psychology that we have in this country today, and a lot of people out there do not understand, as I said earlier, that the slightest little overlap, duplication, whatever, runs into hundreds of millions of dollars.

Ms. **Jarratt**. But Senator, out of the Department of Agriculture alone, we subsidize daily, either totally, as with the free lunch, or partially, as with the food stamp allotment, about 95 million meals a day. One family that is eligible for free lunch would also be eligible for food stamps. If that family had a pregnant mother, postpartum mother, or a child up to age 5, it could get WIC. They could also get child care; they would probably be entitled to AFDC if it were a single-parent, female-headed household. We could work up a hypothetical family for you, if you would like, and show you what kinds of food assistance are available to families at a given income.

The **Chairman**. I would like to see that, but you do not have to be very hypothetical to see the fiscal awkwardness of the school lunch program.

Now, the GAO report, as I recall, indicated that most student dropout in the School Lunch Program has been from children in higher income families.

Do you find that to be the case?

Ms. **Jarratt**. That is right. Senator Melcher brought this point up, and we did not have a chance to clarify it. He said that there were some 27 million children on the program prior to this administration coming into office, and now, about 23½ million children eat the school lunch every day. The participation in the free and reduced-price category is now about what it was in 1980. The participation in the paying category, the most affluent children, is down, and we think that is appropriate. Also, there has been a 4-

percent reduction in enrollment over that same period, and the Congress, I think, rightly, eliminated the private, high-tuition schools and a number of other institutions that accommodated children from more affluent families. I think that what we know now is that the program is better targeted to the more needy child and that all the allegations that the program is going to cave in, if we reduce the paying child and so forth, are completely unfounded.

The CHAIRMAN. Well, as a matter of fact, the young people from lower income families, the number of them participating in the School Lunch Program has been pretty stable, hasn't it?

Ms. JARRATT. That is right.

The CHAIRMAN. Do we have the statistics on that—if not, I would like you to provide it for the record, if you will.

Ms. JARRATT. George.

Mr. BRALEY. Yes, Senator. The number of free meals served each day has been relatively constant. In fact, comparing a year like 1980 with last year, there were 10 million free meals a day in 1980 and in 1983, there were 10.4 million, and those go to children from familes below 130 percent of poverty.

The CHAIRMAN. Thank you. Well, I think that is about all the damage I can do. Do you have anything to add for the record, any of you?

Ms. JARRATT. No, Senator. We appreciate the opportunity to be here.

The CHAIRMAN. Well, I appreciate your coming, and again, I apologize for being previously detained, but this is one of those times. Jim Buckley used to say when he was in the Senate that he was convinced that there was a little computer down in the bowels of the Capitol somewhere, that cranked up every morning at 6 and had him scheduled to be three places at one time every day, and that is about the way all Senators are.

What we do observe here—and not many Senators are attending this hearing, but they know that they can read the transcript, and I shall encourage them to do so.

Ms. JARRATT. We will be happy to reply to any questions they may have.

The CHAIRMAN. Very good.

Thank you very much.

Ms. JARRATT. Thank you.

[Written questions from Senator Jesse Helms to Assistant Secretary Mary Jarratt and answers thereto:]

Question 1. What correlation, if any, exists between those States that have high overissuance error rates in the Food Stamp Program and those States that have high underissuance error rates?

Answer. There is some correlation between those States that have high overissuance and underissuance error rates in the Food Stamp Program but the degree of the correlation changes from period to period. For example, in the second half of Fiscal Year 1981, four States are among the top 10 with the highest error rates in both overissuance and underissuance. However, in the first half of Fiscal Year 1982, there is only one State among the 10 with the highest error rates in both categories.

A more important correlation between overissuance and underissuance error rates concerns how the error rates have changed over time. In other words, whether reducing the overissuance error rate also reduces the underissuance rate. The national overissuance error rate has decreased since 1980 while the national underissuance error rate has remained about the same. However, preliminary study indicates a positive although statistically insignificant correlation between overissuance and underissuance error rates over this time. This indicates the possibility that, in the aggregate, reductions in the overissuance error rates tend to be associated with reductions in the underissuance error rates.

Question 2. As I understand it, the Department has completed administrative hearings on several of the error rate sanctions which were assessed against several States for high overissuance errors, but that the Department lost half of these cases. What were the reasons for these adverse rulings? Are current procedures sufficient to ensure that the statute's error rate sanction system will be enforced?

Answer. Several factors were involved in the findings in favor of the States by the Appeals Board. First, States may be excused for their high error rates based on a "good cause" determination. As the determination of good cause is intended to respond to unanticipated circumstances, it is somewhat subjective. The Appeals Board may make a different determination than the program officials.

The current procedures are sufficient to ensure enforcement of the sanction system. The following are recent examples of continuing efforts by the Department to improve the Quality Control System:

Publication of final regulations (May 14, 1984) implementing quality control sanction changes.

In-depth analysis and review of States' appeals decisions.

Task Force to conduct analysis of the current system established in May 1984.

Question 3. As we discussed, potentially one of the most important reforms adopted in recent years has been the error rate sanction system. Yet, a recent GAO report indicated that *none* of the money owed has been collected. When does the Department anticipate collecting any of the money from sanctions applied to States with high error rates?

Answer. The State of Connecticut paid the Department $1,473,515 for the sanction resulting from the excessive error rate during the April—September 1981 reporting period. Connecticut is contesting this sanction in court. Two other States (Alaska and Arizona) also have been billed. Collection has been stayed pending resolution of the court suits filed by these two States. The Department will continue to make every effort to collect the claims against these States and fully enforce the sanction provisions of the statute.

Question 4. At least one witness has asserted that the implementation of monthly reporting and retrospective budgeting has resulted in increased error rates. Do you have any data that would confirm or refute the claim?

Answer. In the initial months of operating a monthly reporting system, error rates may increase. This occurred in our demonstration project in Illinois due to computer software problems that were later connected. The demonstration project is over now. The State is operating under regular MR/RB requirements subject to waivers. However, when start-up problems were eliminated, our anlaysis of error rates indicated that monthly reporting neither increased nor decreased the error rate. This result may indicate potential for error reduction because the demonstration project differed from the current program operating procedures by not requiring face-to-face recertifications. Recertification is an important method for controlling error in the current system. The fact that errors did not increase under the monthly reporting demonstration indicates that monthly reporting controlled errors as effectively as recertifications. If monthly reporting is implemented in conjunction with recertification interviews, it is reasonable to assume that error rates might be reduced. However, the Illinois study does not provide any direct evidence on this. We anticipate issuing reports on this project some time this fall.

Question 5. Do you have State-by-State data on the approximate percentage of recipients required to submit monthly reporting forms in each State?

Answer. We have preliminary statistics by State on the percentage of recipients required to submit monthly report forms. Attached is the State-by-State breakdown, based on information collected in April of this year.

Approximately one-third of the States are requiring monthly reporting for more than 50 percent of the caseload. One-fourth of the States have placed 30-50 percent on monthly reporting while an additional one-third have between 10 and 30 percent monthly reporters.

Recipients required to submit monthly reports

State	*Percent*
Northeast:	
Connecticut	3.8
Maine	35.0
Massachusetts	20.1
New Hampshire	16.3

State	*Percent*
New York	16.3
Rhode Island	11.7
Vermont	10.3
Mid-Atlantic:	
Delaware	40.0
District of Columbia	18.75
Maryland	20.0
New Jersey	19.0
Pennsylvania	21.0
Puerto Rico	......
Virginia	19.0
Virgin Islands	16.7
West Virginia	18.6
Southeast:	
Alabama	6.0
Florida	11.01
Georgia	8.0
Kentucky	16.6
Mississippi	33.0
North Carolina	9.16
South Carolina	9.8
Tennessee	7.4
Midwest:	
Illinois	14.6
Indiana	46.0
Michigan	85.5
Minnesota	63.0
Ohio	....
Wisconsin	31.6
Southwest:	
Arkansas	10.4
Lousiana	37.3
New Mexico	61.1
Oklahoma	35.7
Texas	13.5
Mountain Plains:	
Colorado	24.3
Iowa	30.0
Kansas	54.0
Missouri	39.0
Montana	89.5
Nebraska	48.0
North Dakota	82.0
South Dakota	74.0
Utah	43.0
Wyoming	86.0
Western:	
Alaska	97.0
American Samoa	......
Arizona	32.6
California	91.0
Guam	87.4
Hawaii	63.7
Idaho	82.1
Nevada	60.14
Northern Mariana Island	......
Oregon	56.3
Trust Territory	......
Washington	35.7

Question 6. You mentioned that you might have some additional information on monthly reporting based on demonstration studies. If you have completed that, would you describe the findings?

Answer. We are in the process of reviewing and clearing the final reports of the Illinois monthly reporting demonstration project which should be released this fall. The study had four major areas of analysis to assess the effect of monthly reporting on: Aggregate payment and caseload levels; payment accurately (error rates); administrative costs; and recipients.

The demonstration experienced significant implementation problems due largely to computer software defects that were not corrected until the second half of demonstration. The results of the analysis for each major topic are indicated below:

Payment and caseload.—Due to computer problems, the payment savings expected to result from monthly reporting did not occur. Over the course of a year, benefits in fact increased 5.5 percent. However, in the second 6-month period, when the majority of system problems were resolved payment and caseload levels were not significantly different for the monthly reporting group.

Payment accuracy.—There was no difference in error rates after controlling for implementation problems. It is important to note that the demonstration differed from the current system by not requiring face-to-face recertification. Recertifications were found to reduce errors in the current system. In conjunction with a recertification policy there may be some potential to reduce error as well, but there is no direct evidence of this from the Illinois demonstration.

Administrative costs.—There was an increase in administrative costs after controlling for computer problems, by an estimated 6 percent.

Recipient effects.—In general, recipients had no problems completing the monthly reporting forms and liked the system because it routinized their contact with the welfare office. There was less confusion about what to report and when to report it. Also, there was no additional cost to recipients to participate in the program. Compared to the current system, there was no difference in the number of closed cases that were eligible for benefits.

Question 7. At earlier hearings, several witnesses have made suggestions for Food Stamp Program changes that Congress has already enacted—in 1981 and 1982—but which have not been implemented through regulations. Specifically, recommendations have been made to apply the voluntary quit sanction not only to applicants but also to recipients. This was mandated in section 1311 of the Agriculture and Food Act of 1981, P.L. 97-98. A provision in the Omnibus Budget Reconciliation Act of 1982, P.L. 97-253, provided that food stamp recipients would not receive any increase in benefits resulting from a reduction in benefits in another welfare program (section 164). Another provision increased the penalty for voluntarily quitting a job from 60 day ineligibility to 90 day ineligibility (section 158). However, as I understand it, none of these provisions has been implemented in the two years since enactment. The two voluntary quit provisions in particular seem very straightforward. Why have these three provisions not been implemented, and when will they be implemented? What other provisions have not been implemented, and what is your schedule for implementation?

Answer. All three provisions were originally included in broader proposed regulations which raised some complicated issues, the resolution of which in turn delayed publication of final regulations. The two voluntary quit provisions (increasing the penalty for voluntarily quitting a job and applying the penalty to recipients as well as applicants) were included in a proposed rule on work registration/job search published on May 24, 1983. As you are aware, responsibility for administering the program's work requirements has shifted over the past 2 years to State welfare agencies that sign contracts providing for 100 percent funding. Discussions about this change in responsibility and funding, as well as alternate approaches, have delayed publication of final rules on the program's work requirements. We have since removed the voluntary quit provisions from this larger docket. They are now in a regulation on workfare that will be published at a later date.

Similar complications have delayed implementation of the provision to ensure that food stamp benefits do not increase when other welfare payments are reduced for violations of the rules. This provision was published on April 19, 1983, in a proposed rule that also included legislative provisions allowing disclosure of certain program records to the Comptroller General, law enforcement officials, and officials in other Federal or federally-assisted State assistance programs. Commenters raised several issues about disclosure of information that required a significant amount of research and delayed final rules. Those issues are now resolved. We consider it a high priority to finalize this regulation and are moving to assure its prompt publication.

There are only a couple of other provisions from 1981 and 1982 legislation that still need to be implemented. One 1981 provision gives State agencies a more flexible time frame to notify households of the expiration of their certification periods. This regulation should be published later this year. Another 1981 provision allows the Department to revise vehicle resource standards; this is not mandatory and is being examined further. We are also continuing to work on the issues relating to work requirements.

Question 8. The Department has changed the procedures involved in implementing the work registration requirements of the Food Stamp Program. Yet I understand that some States are not performing work registration. What is the current status with regard to how many States are not performing any work registration? How does the Department intend to ensure enforcement of the work registration requirements of the Food Stamp Act in these States?

Answer. All States are currently conducting work registration as required by the regulations. With regard to the job search program, States participate and receive funding by contracting with the U.S. Department of Agriculture. Currently, 41 States are operating a job search program. Under the contracts, these States receive full funding for their job search activities. Because the contract relationship is voluntary, some States have elected not to participate. The Department strongly encourages all States to participate in job search.

Question 9. The General Accounting Office completed a report in January 1982 which indicated that millions of dollars could be saved by improving the Authorization-To-Participate system which was used as the issuance system for about 75 percent of the Food Stamp Program. What actions have been taken to improve the system's fiscal integrity, as recommended by the GAO? Specifically, what has been done to eliminate Federal expenditures associated with duplicate issuance and redemption which the GAO estimated was costing about $12 million annually?

Answer. The Department has made great strides toward improving the fiscal integrity of the Authorization-To-Participate (ATP) System and eliminating Federal expenditures associated with duplicate issuance and redemption. Duplicate issuances have dropped 57 percent from $12 million in Fiscal Year 1981 to $5.2 million in Fiscal Year 1983. This dramatic drop is evidence of our commitment to eliminate these losses.

To reduce ATP losses due to theft and abuse, the Department has moved aggressively to improve the ability to positively identify or verify food stamp clients. All food stamp project areas with more than 100,000 recipients are required to have photo ID's. In addition, the Department has mandated photo ID's for areas with less than 100,000 recipients when duplicate issuances were excessive. The Department has also encouraged States to voluntarily implement the use of photo ID's or to install an issuance system that will prevent excessive losses. Since November 1982, 11 sites have implemented a mandatory photo ID system, 11 sites have voluntarily implemented a photo ID system and six sites have developed an alternate identification system.

To further reduce the abuse of the ATP System, replacement rules for ATP issuances have been tightened. In addition, the Department has developed regulations continuing the authority for operation of New York City's food stamp replacement ATP issuance procedure and rapid access reconciliation system. This system has virtually eliminated ATP losses caused by recipients fraudulently requesting and negotiating replacement ATP's.

Finally, the Department is testing the use of the Electronic Benefit Transfer system, which substitutes electronic impulses for paper coupons as an exchange medium. This system was designed to eliminate opportunities for fraud and abuse and promises to curb such offenses as mail fraud, coupon theft, forgery and alteration of participant identification and authorization cards, redemption of coupons for cash and food stamp trafficking.

Question 10. Has the Department taken action to correct deficiencies identified by the Inspector General and the General Accounting Office with regard to State implementation of wage match requirements?

Answer. The Department has taken several actions to correct the deficiencies identified by the Office of Inspector General (OIG) and the General Accounting Office (GAO) on wage match implementation. On June 6, 1984, the Department responded to the report from GAO which explained various actions taken on wage matching. To date, seven of the 10 recommendations cited by OIG have been resolved.

Significant progress has been made since the OIG and GAO's field work was conducted. The Department has devoted an enormous amount of time and effort to ensure that States implement wage matching, and continues to provide technical assistance to enhance States' wage matching systems. To date, 45 States have implemented wage matching. States are progressively improving their level of computer development as well as their knowledge of prioritization techniques and follow-up strategies. As effective wage match strategies are developed, the Department shares this information with all regions and States. Currently, the Department is coordinating its efforts in a project with the Department of Health and Human Services and other Federal agencies under the auspices of the President's Council of Integrity and Efficiency to increase its knowledge of effective wage match strategies. This information will also be shared with States to further improve their systems and realize benefits from wage matching.

In addition, the Department has initiated and continues to initiate the warning process for State agencies' noncompliance with wage match requirements. Further, the Department regional offices and State agencies have conducted over 60 monitoring reviews of wage match activities since Fiscal Year 1983, and several are planned for the remainder of Fiscal Year 1984.

The Department continues to make wage matching a high priority in our efforts to detect and prevent program abuses.

Question 11. Concerns have been expressed that the Department has received, but is not releasing, information on the national WIC evaluation being supervised by Dr. David Rush. Dr. Rush has supplied a letter of clarification about how much of his work has been completed. However, from USDA's standpoint, what is the status of this evaluation, and when do you anticipate that it will be released?

Answer. FNS has received preliminary drafts of the National WIC Evaluation study reports. After review by FNS technical staff and the National WIC Advisory panel, the reports were considered unsuitable for final draft preparation and substantial revision was required. FNS is, therefore, modifying the National WIC Evaluation contract to provide additional time and support to complete planned analyses and draft a comprehensive and readable final report.

Release of the study findings is clearly premature until FNS and the advisory panel have had the opportunity to review, discuss, and provide final comments to the contractor. While USDA is anxious to share study results with the public, established review and clearance procedures are USDA's assurance of high quality results and are standard practice. USDA expects to release the final report in late fall.

Question. 12 Both the General Accounting Office and the Inspector General have stressed the need to ensure that recipients of surplus commodities are actually needy. What action has the department taken to ensure greater accountability and address these concerns?

Answer. Interim regulations published on December 16, 1983, require that each State agency administering the Temporary Emergency Food Assistance Program (TEFAP) develop income-based standards of need for program participation and submit these criteria in a plan of operation for the Department's approval. States have responded positively to these interim rules to the point that we now believe effective income-based standards are in place in every State. For example, half of the States have established income standards equal to or below the Food Stamp Program standard of 130 percent of the poverty level. All other States have standards at or below the limits for reduced-price school meals (185 percent of the poverty level).

Proposed amendments to the interim regulations published on July 2, 1984, suggest several program accountability and monitoring provisions. Public comments on these amendments are due by August 31, 1984, and it is expected that final rules will be issued early in Fiscal Year 1985.

The CHAIRMAN. Our next witnesses are Thomas J. Burke, Assistant Inspector General for Investigations, and Donn E. Adkisson, Assistant Inspector General for Audit.

You may proceed.

STATEMENT OF THOMAS J. BURKE, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, AND DONN E. ADKISSON, ASSISTANT INSPECTOR GENERAL FOR AUDIT, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE

Mr. BURKE. Senator, I am the Assistant Inspector General in charge of Investigations for the Department of Agriculture. Also this week, I am the Acting Inspector General. John Graziano is at a conference in Miami with the U.S. attorney, discussing a very important case that has international implications.

We have no prepared statement, sir. We responded to your request, and we would be delighted to answer any questions that you may have concerning our audit work or investigative activities within the Department of Agriculture.

The **Chairman**. Very well, and we will move it along fast, because I know you gentlemen have other responsibilities. But I appreciate your coming, because it is important that we make a record as to what is accurate and what is factual with respect to a lot of things.

Let me go back to 1980. The then Inspector General, Mr. McBride, indicated that the requirement that the Federal Government operate directly several nutrition programs was diverting Federal personnel from proper review and monitoring of all Federal nutrition programs, as well as from providing technical assistance. Inasmuch as the Federal Government must still operate these programs directly, do you agree with the observation by Mr. McBride?

Mr. **Burke**. Senator, this was discussed by Senator Melcher and Ms. Jarratt. The FNS is attempting to put some of these FNS-administered programs back with the States. That was Mr. McBride's observation at that time, and I think we would agree. However, Senator Melcher also thought it would be a very difficult thing to do, and I agree with that, too.

The **Chairman**. Sometimes the right thing to do is difficult, and what we need to think about is not the politics of it, but what is right for the people who are paying for these programs and all the others of the Federal Government.

Do you think we ought to require the States to assume direct administration of these programs? I mean, if you were just a detached citizen out there, do you think you would applaud requiring the States to do that?

Mr. **Burke**. I really do not know, sir, except that we do back FNS's policies in this regard. I have to quote Mary Jarratt again. She said she did not know if it should be a requirement or how it would work, but they are going to try to get the States to assimilate these programs.

The **Chairman**. Thank you, I think.

Well, I guess I will not press the point. But we talk about the cooperation of the Federal, State, and local governments. I came to Washington nearly 12 years ago, convinced that there was not all that much cooperation, and there was much chestbeating, particularly on the State level, about the cooperation. But I did not see it, and I still do not see it, certainly, when somebody else has the responsibility of raising the revenue to finance it.

Well, let me ask you about that $4.8 million robbery of food stamps in Philadelphia. I remember hearing some weeks ago that some folks had been arrested in North Carolina. Have there been any more arrests?

Mr. **Burke**. Senator, in talking about cooperation and coordination between Federal, State, and local authorities, the $4.8 million theft of food stamps in Philadelphia, I am very proud to say, was an excellent illustration of cooperation and coordination in the law enforcement community at all levels.

The theft of the $4.8 million occurred in mid-December from the printing firm, U.S. Bank Note, and was not discovered until right after New Year's; $4.8 million in food stamps is equivalent to four skids, or pallets, about 6 feet tall, and they needed a large truck to take this kind of volume out of there.

We joined forces with the Philadelphia police, the FBI, the Secret Service, and several other law enforcement units in the Philadelphia area. We have to date arrested six principals who were involved in the actual theft—it was an inside job, Senator; we established that. We have also arrested in the neighborhood—and it depends on what day I count them—over 50 people who were dealing in the distribution of those stolen food stamps. In this particular case, the food stamps did not really get too far from U.S. 95—and 95 goes through your State, as well as through New York and so on. We made arrests in New York City, we made arrests in New Jersey. Most of the arrests were in the Philadelphia area. And, yes, we did make an arrest in Fayetteville. Those stamps came from Philadelphia via Richmond, VA, and the fellow was caught in Fayetteville, again with the assistance of the local police. So, cooperation is actually literally there and tangible; you can reach out and feel it.

Of the $4.8 million, again depending on which day we count, we have recovered approximately $3 million of the stolen $4.8 million. We still have several fugitives that we are looking for, not the thieves, but other people who were processing the stolen stamps. We think we may be able to pick up something in the neighborhood of another $200,000 to a quarter of a million dollars' worth of stamps.

All of this, Senator, was because of their cooperation.

The CHAIRMAN. Yes; well, I thoroughly agree with you about the law enforcement side. I happen to be the son of a police officer, who has been dead a little over 10 years now, but there is nothing wrong with the people in law enforcement, and I have to tip my hat to Rufus Edmisten, who is the attorney general of North Carolina and who, in that capacity, is head of the State Bureau of Investigation. The law enforcement people have been very, very cooperative. That was apparent at some hearings we held in North Carolina on fraud in the Food Stamp Program. Some of your people and others testified that the average citizen would not believe the extent of the fraud in this program. Anything you can buy with money, you can buy with food stamps, and it is being done. I think it was one of your people—you can correct me, if I am wrong—who said that all they had to do was hit the street and put out the word that they were in the market for food stamps, fraudulent food stamps, and they had more customers than they could handle within 24 hours. This is true in Fayetteville, Raleigh, Charlotte, Greenville, Asheville, and Wilmington—anywhere you went. But you are exactly right. The law enforcement people in North Carolina, they see this, and they understand that, and they want to help you crack down on not only matters of this kind, but all others.

Well, some years ago, there was an OIG audit that indicated that some child-care providers, primarily in Head Start centers, were receiving dual reimbursements under both the Child Care Food Program and the Head Start Program. Now, the administration is recommending to delete Head Start Programs from Child Care Food Programs and fund their food costs separately through the Head Start Program.

Does this respond to the concerns that OIG has raised?

Mr. BURKE. I will ask Mr. Adkisson to answer that, Senator.

Mr. ADKISSON. Yes, sir, it does. We feel that that will adequately address our concerns.

The CHAIRMAN. Of course, there has been a lot of criticism about it, particularly in some of the media.

All right. The OIG audit of Quality Child Care, Inc., in 1982, recommended that the means test for family and group day care homes be reinstated because a high proportion of children in such homes were from families with higher incomes.

Does the Inspector General continue to support the reinstatement of the means test?

Mr. ADKISSON. Yes, sir.

The CHAIRMAN. In the past, you have done work in the Summer Food Service Program and made recommendations for changes. Have you done any recent work which would indicate whether there is any greater assurance that benefits are targeted to poor children?

Mr. ADKISSON. We have four States scheduled for this summer's program in order to continue to assess those programs for this summer.

The CHAIRMAN. What States are they?

Mr. ADKISSON. New York, California, Illinois, and Louisiana. Those are the big participating States.

The CHAIRMAN. Would it be preferable to have only those facilities with cafeterias, such as schools and camps, participating in this program?

Mr. ADKISSON. We feel that that would certainly be a stronger control than the present method. However, with adequate controls over the delivery to States other than cafeterias, we feel that the program could still be successful. The key is the control of the program.

The CHAIRMAN. Briefly, may I ask you to outline the change in responsibility with regard to investigations in the Food Stamp Program, that is to say, the shift to the Secret Service?

Mr. BURKE. Senator, we have not relinquished any responsibility in the investigation of violations within the Food Stamp Program. What we have done is simply ask the U.S. Secret Service to assist us in certain areas of the food stamp investigations.

On January 23 of this year, we entered into a formal agreement with the Secret Service in which the Secret Service will focus on the outside criminal elements, such as food stamp thieves such as we had in Philadelphia—counterfeitors, or persons suspected of trafficking in food stamps. These are people not related and not directly involved with the Food Stamp Program, very much akin to what you have described being on the streets in Charlotte, Raleigh, and Greenville.

We will continue to direct our investigative efforts to people who administer the program—that is, both Federal and State—people who benefit from the program; people who deal in the food stamps, such as grocers and contractors of ATP's and food stamps.

For the past several years, we have been working selective joint investigations with the Secret Service. We came to this accommodation at the beginning of this year. As you know, we are not fortunate enough to have agents in every city in the United States. We only have about 250 agents. The Secret Service personnel give us far greater coverage throughout the United States than we do, and they are well trained and well geared to accomplish this task—in areas which we can only address occasionally. Even in North Carolina, as you know, we cannot go to Charlotte and we cannot go to Asheville every week. We have to spread our people around.

Additionally, it should be noted that in fiscal years 1982 and 1983, we spent 45 to 48 percent of our agent resources in the investigation of FNS programs. In light of our other responsibilities within the Department, this is not in proportion to the needs of our Department. We are striving to spend one-third of our resources in the FNS program and two-thirds in the other programs.

We believe that with the assistance of the Secret Service, our agreement should significantly increase the Federal efforts of preventing and detecting fraud in the Food Stamp Program.

We think it's a good deal.

The CHAIRMAN. Well, there is a feeling in North Carolina that the effort has been diminished. You say that it has not?

Mr. BURKE. No, I do not think it has been diminished. I think what we are doing—and I have been in touch with the U.S. attorney in North Carolina who thought that we had diminished—and as you recall, just prior to your meeting in Raleigh over the last month, we had 62 indictments in his area on food stamp cases alone.

Diminished, the answer is no. Shifting, the answer is yes—but shifting from our sole attention to joint attention of the Secret Service and ourselves, and the Secret Service only in certain areas where we cannot join them jointly.

I am quite sure that we will continue to address the problems of that U.S. attorney in North Carolina, either individually or jointly with the Secret Service.

But diminished, no, sir. We have a big program here.

The CHAIRMAN. I tell you, I have several more questions. Why don't I save you a little bit of time, because these are in part technical questions. So why don't we submit those in writing to you and let you reply in writing, and we will make them part of the record.

[The following was subsequently received by the committee:]

ADDITIONAL QUESTIONS SUBMITTED TO THE OFFICE OF INSPECTOR GENERAL BY SENATOR JESSE HELMS AND ANSWERS THERETO

Question 1. The Office of Inspector General has previously voiced recommendations about the Puerto Rico food stamp program. Now that Puerto Rico has been operating the block grant, do you have any further findings or observations?

Answer 1 by Mr. Adkisson. We monitored the implementation of the transition from food stamps to cash payments in Puerto Rico and reported the process was successful. Subsequently, a Departmental study confirmed our findings. No further audit work is planned in fiscal year 1984 because (1) the Puerto Rico Department of Social Services is scheduled for an A-102 organizationwide audit which will include coverage of the nutrition assistance grant, and (2) the Food and Nutrition Service has contracted for an evaluation of the grant, to include fraud and error assessments, in response to a congressionally mandated study which is due in March 1985.

Answer 1 by Mr. Burke. We have held meetings with members of the Puerto Rico Department of Social Services and members of the Puerto Rico Department of Justice. These meetings have been held to determine the steps taken to prevent and/or prosecute any instances of fraud discovered in the Nutrition Assistance Program.

According to Dr. Geraro Collaza, Secretary of the Department of Social Services, and Blanca La Fontain, Assistant Secretary for the Nutrition Assistance Program, the controls now in effect to prevent fraud, waste and abuse in the Nutrition Assistance Program are more effective than those formerly in effect in the Food Stamp Program. They feel that this is evidenced by the fact that the number of participants has been reduced by identifying fraudulent conditions prior to certification. They also felt that the use of checks has reduced the loss of program funds because in case of theft or fraudulent negotiation the endorser or bank is required to pay the Nutrition Assistance Program.

The Department of Social Services' Office of Internal Audit/Investigation is responsible for the investigation of all Nutrition Assistance Program violations. Cases involving complex or employee fraud are referred to the Special Investigations Bureau, Puerto Rico Department of Justice, for investigation and prosecution. Routine, or less complex cases which require no further investigation, are referred to the Department of Social Services which then refers them directly to the Department of Justice for prosecution. A review of the Nutrition Assistance Program caseload at Internal Audit/Investigation revealed that since the Nutrition Assistance Program began they have received a total of approximately 6,000 complaints of stolen participant checks. This amounts to approximately 200 checks per month in a program which has participation levels above 400,000 per month.

The Special Investigations Bureau is currently investigating a case involving the theft of 700 Nutrition Assistance Program checks worth a total of $120,000. We are closely monitoring their progress on this case should our assistance be needed.

The Criminal Division of the Puerto Rico Department of Justice has processed about 849 cases of Nutrition Assistance Program violations. All cases but one were disposed of by the participant agreeing to repay the stolen funds rather than being prosecuted. He further advised that no specific law has been enacted in Puerto Rico to outlaw fraud or theft of Nutrition Assistance Program funds, but that such offenses are prosecuted as violations of the Puerto Rico Penal Code, Title 33, sections 4391 (violations involving public funds), and sections 4271 and 4272 (illegal appropriation).

Question 2. Several years ago, OIG recommended improved verification in the school lunch program. Are you satisfied with the current verification that is now going on there? Have you done any recent audits which reveal continuing problems? Do you have any further recommendations for improvement?

Answer 2 by Mr. Adkisson. An audit of the Chicago Board of Education is in process. We are using statistical sampling and wage match techniques to evaluate the income verfication process. The Department recently issued a final rule which will require more intensive verification efforts for the 1984-85 school year. The results of the Chicago audit will be used in planning wider audit coverage of the Child Nutrition Program in fiscal year 1985. Depending upon the results of those audits, we may need to make additional recommendations for strengthening the income verification process.

Question 3. In the WIC program, have you made any audits that would suggest any changes that need to be made in the administration of the program?

Answer 3 by Mr. Adkisson. Our audits of the WIC program in recent years have shown continuing weaknesses in internal controls at State and local levels. We have made appropriate recommendations for correcting the problems. The results of our fiscal year 1984 audits may suggest the need for further changes in program administration that will reduce fraud and waste.

Question 4. Are you satisfied that States and local agencies are reimbursing the Department for disallowed or misdirected expenditures in the various FNS programs? What can be done to expedite the collection of sanctions from States levied in the food stamp program?

Answer 4 by Mr. Adkisson. A number of recent OIG audits of the Food and Nutrition Service's financial management activities indicate that the Service did not always timely establish accounts receivable for claims against State agencies or assess interest on delinquent debts. Also, the Service did not have an effective system for monitoring State agency claims against subrecipients.

We have recommend that the Service monitor more closely its regional operations and improve coordination between its Program and Financial Management staffs. This would enhance the collection of funds due the Government that represent strict liabilities. However, the recovery of losses due to negligent actions are imposed as sanctions which are subject to administrative and judicial appeal and thus more difficult to collect.

Question 5. As I understand it, the Department has completed administrative hearings on several of the error rate sanctions which were assessed against several States for high overissuance errors, but that the Department lost half of these cases. What were the reasons for these adverse rulings? Are current procedures sufficient to ensure that the statute's error rate sanction system will be enforced?

Answer 5 by Mr. Adkisson. Administrative hearings have been held for six States sanctioned as a result of the April to September 1981 quality control error rates. The State Food Stamp Appeals Board ruled as follows:

1. Alaska—billing of $2,148,102 was upheld.
2. Arizona—billing of $236,206 was upheld.
3. Colorado—billing of $821,180 was waived.
4. Connecticut—billing of $1,338,545 was upheld.
5. Florida—billing of $3,801,937 was waived.
6. New Hampshire—billing of $244,232 was waived.

The Board was impressed with Colorado's subsequent actions and reductions in error rates and stated that these were indicative of good faith efforts on the part of the State.

The Board stated that Florida should have been granted a good cause waiver of the sanction because of the high influx of refugees and the positive actions on the part of the State.

The Board also stated that the statistical validation of New Hampshire's excessive rate, done 2½ years after the fact, was an aberration of the re-review process and produced an unacceptable, or at best, a questionable result.

The procedures in current regulations adequately provide for implementing the error rate sanction system prescribed by law. However, other regulations provide a means for administrative appeal and waiver. Also, the sanctioned States may seek rights of due process in Federal court. Since extenuating circumstances are a factor, as in the case of Colorado, Florida, and New Hampshire, enforcement of a sanction cannot be guaranteed.

The CHAIRMAN. But I do have one final question with respect to a Senate provision adopted sometime back, to include the Food Stamp Program in the income and eligibility verification system being designed for all of the major Federal welfare programs.

Are you familiar with that?

Mr. BURKE. Yes, sir.

The CHAIRMAN. Do you think this would help reduce the errors in the program?

Mr. BURKE. I do not think that I could give you an educated answer, sir.

The CHAIRMAN. Why don't you think about it, and either of you, after thinking about it, if you would care to respond to it, we would like to have that for the record, too.

Is there anything else you would add that we have not covered?

Mr. BURKE. No, sir. We want to also thank you for your continuing support of our efforts in North Carolina and elsewhere.

The CHAIRMAN. You have got it.

Mr. BURKE. Thank you, sir.

The CHAIRMAN. Thank you. We appreciate your coming.

All right. Now we have the GAO, Mr. Brian P. Crowley, Senior Associate Director of the Resources, Community and Economic Development Division, General Accounting Office. Mercy, what a title.

Mr. Crowley and your colleagues, we appreciate very much your helping us assess and analyze where we are at with respect to trying to restore a modicum of common sense to these programs.

Your statement will be made a part of the record in full. If you want to summarize it, I know you have many other things to do today, and we will move you along as rapidly as may be possible.[1]

You may proceed as you wish.

STATEMENT OF BRIAN P. CROWLEY, SENIOR ASSOCIATE DIRECTOR, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY STANLEY S. SARGOL, GROUP DIRECTOR; MEL W. MENCH, FOOD STAMP AUDIT MANAGER; RALPH LOWRY, WIC AUDIT MANAGER, AND KEITH FULTZ, SENIOR GROUP DIRECTOR

Mr. CROWLEY. Thank you, Mr. Chairman.

I notice that you have already read a number of our reports referred to in my statement, so I will skip over them in my statement. Please stop me whenever you want any further clarification.

We are here today at your invitation to discuss our work. Basically, my statement starts off with the major report we issued last year, in February 1983, which discussed the need to recover Food Stamp Program costs attributable to errors and fraud.

Recent data shows that the error rates have declined, as you mentioned, but because of increases in total program outlays, overpayments still approach $1 billion per year. The annual dollar loss is equivalent to what is spent to provide food assistance for almost 2 million needy people.

Since then, we have initiated several followup reviews and have started work in other food assistance areas. For example, in our February 1983 report, we noticed that wage matching, required by law in both the Food Stamp and AFDC Programs, is a promising technique for identifying erroneous earnings information reported by households participating in needs based programs. Basically, it involves comparing household-reported earnings with wage information available from an independent source, generally a State agency administering the Unemployment Compensation Program.

We recently completed field work on this review in five States, and we found a number of problems. Two-thirds of the approximately 700 randomly selected cases we reviewed in the local offices showed significant differences, averaging about $900 per case for a 3-month period.

Our work indicated that about 90 percent of the two-thirds had differences which were not handled properly by the local offices. The problems involved local offices not taking appropriate steps to manually match independent wage data with the earnings data in the case files and not consistently following up and resolving differences.

Essentially, it comes down to the fact that Agriculture and the States could have provided better guidance and assistance to the people who are carrying out the day-to-day responsibilities in the wage match area.

---

[1] See p. 52 for the prepared statement of Mr. Crowley.

By the way, the same problem is probably of concern in the AFDC Program, because the same people manage the program in most of the States.

The CHAIRMAN. That is correct.

Mr. CROWLEY. We also looked into collections—and by the way, let me go back to wage matching. We should have a report fairly soon on that. We are sending a copy of it to the Administrator of the Food and Nutrition Service for comment within the next 2 days or so.

The CHAIRMAN. Let me interrupt there. Both GAO and the Inspector General reached the conclusion that States are not following up on the required wage matching to detect fraudulent participation. Your findings are about the same, aren't they?

Mr. CROWLEY. Yes; they are.

The CHAIRMAN. Do you cover in your statement any specific recommendations on how the States can improve the followup on these matches?

Mr. CROWLEY. We found primarily that the Department of Agriculture needs to give the States some better guidance. Our report has some very detailed recommendations, which I really will not get into today, but the report does cover a number of areas in which the Department should give additional guidance to the States and then to the local people in handling this.

The CHAIRMAN. Let me ask Mr. Boney, did you cover whether the Department is going to do this or not, with prior witnesses?

Mr. BONEY. I do not believe we discussed that.

The CHAIRMAN. Well, make a note to see what they are doing, or plan to do, in that regard.

Mr. Crowley, I apologize for interrupting.

Mr. CROWLEY. With regard to collections, we also noted in our February 1983 report that the States collected only $20 million for a 2-year period, or about 1 percent of each overissued food stamp dollar. The State officials often cited the absence of sufficient financial incentives and effective collection tools as reasons why their collection activities had not been more aggressive.

As you know, the Congress pretty much recognized that problem and allowed for strengthened recoveries—for example, recoupment—that is, recovering overissuances from current AFDC and food stamp participants by reducing their monthly benefits. We are currently making a followup review of these collections to determine what effect the legislative changes have had on the States collection efforts in both programs. Preliminary indications are that the collections are increasing, primarily because of the recoupment part that was put in by the Congress. But we are finding evidence that the States, even here, could do a better job in the recoupment area.

Food stamp procedures for notifying participants, for example, regarding amounts owed, and initiating recoupment procedures, are presently time consuming. There are indications that the States' primary method for collecting from households no longer receiving benefits is to merely send letters requesting repayment, and they have not considered additional alternatives, such as possibly, intercepting State income tax refunds.

Food stamp legislation, while it requires recoupment for overissuances for current participating households, applies only to participant-caused errors. Recoupment does not apply to agency-caused errors, as is the case in the AFDC Program.

In our 1983 report, and in subsequent testimony before the Subcommittee of the House Committee on Agriculture, Mr. Panetta's committee, we recommended that Congress amend the Food Stamp Act of 1977 to conform food stamp legislation with AFDC legislation which provides for mandatory offset against AFDC participant benefits for overpayments caused by any type of error, whether it is agency caused or recipient caused.

By the way, a provision in your bill, S. 1993, section 702, would accomplish this change.

We have also recommended that States be required to take appropriate action under State law to recover overissuances against income or resources of individuals or households no longer receiving benefits. Right now, they are allowed to do that, but there is no requirement that they do it. Our ongoing work is reconfirming the need for these kinds of changes.

With regard to corrective action plans, within the next few weeks, we will be issuing a report on the corrective action process—that is, Agriculture's management system for having States identify and correct problems in the Food Stamp Program. We have found that overall, Agriculture has improved its management of the Food Stamp Program, but some areas need further attention. Our report to the Secretary of Agriculture has a number of administrative recommendations to the Secretary to correct those problems, and that will be issued within a few weeks.

At the end of January, you asked us to get you some information on the error rate sanction systems. We are very happy that our report got issued today.

The report discusses the procedures for holding State and Federal organizations financially responsible for excessive errors in the day-to-day administration of Food Stamp, AFDC, and the SSI Programs. Our analysis of these systems shows that the error rate targets established for the programs have differed by year, by program, and from State to State for the same program.

Beginning in fiscal year 1985 and continuing thereafter, all States will have a 5-percent target for food stamps, 4 percent for SSI, and 3 percent for AFDC. The dollar basis to which any excess error rate percentages apply in calculating sanctions also differ between programs. Because of these differences, the sanction system used in the Federal Food Stamp Program—which is based on State administrative costs—results in proportionately smaller sanctions for excessive errors than the AFDC or SSI sanction systems, which are based on total benefits issued.

Although sanction systems can be effective program management tools, sanctioned States have not paid the Federal Government for any of the sanctions assessed against them for the billions of Federal dollars lost through food stamps or AFDC benefit overpayments. USDA and HHS have authority to waive, under certain circumstances, sanctions assessed against States and have done so in many cases. But they have done so based on such things as States' developing plans for taking corrective action.

Mr. Chairman, I think it is important to stress here that we really want to concentrate on correcting the problems in the program rather than beating people over the head and trying to exact money from them. I think that, so far, the sanction systems have had a beneficial effect, and people are paying much more attention to program errors.

In contrast, the Federal Government has acknowledged liability or paid States about $160 million assessed against it since 1974 for excessive overpayments of State-financed SSI Program benefits. There is no waiver provision under that program.

The CHAIRMAN. Well, let me see if I understand you. You say that USDA and Health and Human Services show that error rates have dropped more in the Food Stamp Program since we began tightening the screws a little bit—they have dropped more in the Food Stamp Program than in the AFDC or the SSI; is that correct?

Mr. CROWLEY. That is correct.

The CHAIRMAN. But they are still higher than those for the other two programs.

Mr. CROWLEY. That is true. They were a lot higher to begin with.

The CHAIRMAN. Yes. So at least we are making some progress, but we have got some way to go yet.

Mr. CROWLEY. Yes, sir. But the one thing the sanctions do, as you pointed out before, is they give the States a financial incentive to improve. Before this, the States did not have a financial incentive.

The CHAIRMAN. That is exactly right.

Excuse me, again. Please continue.

Mr. CROWLEY. Let me turn now to WIC. We have some ongoing work on WIC, and excuse me, Mr. Chairman, but let me read quite a bit of this, because this is new information, and it is an ongoing job, rather than an issued report. This is the only information you will have from us on this for sometime.

As you know, to be eligible for WIC, applicants must meet income limits established in accordance with Federal requirements and be considered at nutritional risk on the basis of State-established risk criteria. WIC has grown rapidly, and monthly participation now, from what we know, is about 3 million women, infants and children, and annual program costs are about $1.2 billion. Program officials recognize that budgetary constraints are likely. Our recently completed field work on WIC focused on what could be done to better direct limited funds to those considered to be at greatest nutritional risk.

We found broad agreement among program directors, nutritionists, and certifying officials that pregnant women, breast-feeding women, infants, and children under age 3, in roughly that order, were more likely to be at risk because of inadequate health or income or both, and were more apt to benefit from timely WIC interventions.

There also was substantial agreement that targeting program benefits to the groups at greater risk would represent an appropriate strategy for optimizing program impact and insuring effective use of limited funds.

We did our work in five States, and it showed relatively little targeting being done. Current program rules do not require or even encourage targeting, except under circumstances where a State or local agency program has attained maximum caseload; that is, when available funding will not support further increases in the number of participants. In such an event, the WIC agencies are required to maintain applicant waiting lists grouped according to federally prescribed priority risk categories, and to enroll from these lists on a one-for-one replacement basis only as other participants come off the program.

It would make more sense and would probably be more productive, if we started our targeting when available funds would enable WIC agencies to increase enrollment and take on new participants.

Based on our work and discussions with program officials at locations we visited, it appears that Agriculture could do more to emphasize targeting as a principal program objective, make State agency performance in this area a major focus of its WIC management evaluations, build in targeting performance as an incentive factor in its fund allocation formula, and help States to target their outreach and develop health care networks to assure referrals of high-risk applicants to their WIC Programs.

In other words, we are not saying kick anybody off the WIC rolls. What we are saying is have a referral system that brings in the people who are at nutritional risk, truly high nutritional risk; make sure that you have an outreach program and a referral program that is going to get the kind of people into the program where this program is going to provide the most benefit.

The CHAIRMAN. In other words, central targeting.

Mr. CROWLEY. Right.

Our work also touched on a couple of other points. One is that we found that there is a problem with funding uncertainties. The State and local agencies have difficulty planning and managing their caseloads and have to make special efforts to avoid the risk of having Agriculture recover and reallocate any unspent WIC funds to other States. Some local agency directors told us that the pressures to enroll participants quickly and to maintain participation at the new, higher caseload levels made possible by infusions of additional funding at unpredictable intervals often turn WIC into a numbers game, where the relative health risk or need of those served become less important than simply filling the available caseload slots.

These kinds of pressures are obviously at odds with the concept of targeting to priority needs because WIC agencies sometimes feel that, to avoid the possibility of losing WIC money, they have to spend the money quickly on the most accessible eligibles available without necessarily considering the relative priority of their needs. Some WIC officials told us that a more stable funding approach, including authority for States and WIC agencies to carry over part of their program funds, without loss, from one year to the next, would provide them needed management flexibility and opportunity for targeting initiatives.

Our analysis and discussions at local WIC offices also have suggested the need to refine and tighten some of the nutritional risk criteria presently used to enroll WIC participants, and to make it more uniform nationwide. The nutritional risk criteria differ from State to State and result in disparities as to who can qualify for the program. For example, someone at risk for anemia in one State would not necessarily be considered at risk in another. One State may consider consumption of more than a minimal amount of caffeine in tea, coffee, or colas as a risk factor for pregnant women, while others may not.

States also differ as to the age cutoff used for determining the risk factor of adolescent pregnancy; such age may vary from less than 15 years of age at the time of conception in one State, to age 19 or under in another. One of our earlier reports addressed this same point and pointed out the need to assure WIC applicants more equitable access to program benefits, regardless of where they live.

Also, although WIC participants are to meet established income criteria based on family size, we know that the WIC regulations do not require documentation of eligibility. Generally, the WIC certification workers that we talked to commonly accepted an applicant's word on family income. We expect a report on these points to be issued later this year, Mr. Chairman.

With regard to school lunch participation, I think your earlier remarks indicated that you pretty much are fully aware of our report on that subject. Regarding our commodity distribution report, which discussed the distribution of cheese and how much is displacing commercial sales, and whether there was a need for additional program guidance from the Department—I think you are pretty much familiar with that.

I will tell you that the Department is supposed to give us a letter on what actions it plans to take with regard to that report, within about 3 weeks. If you would like, we can make sure that a copy gets sent to your office.

The CHAIRMAN. Please do.

Mr. CROWLEY. We also have several ongoing reviews, which I will just touch on briefly. Some of them were done at the request of several Members of Congress. We began a review of the adequacy of Agriculture's procedures to assure that surplus foods are being properly stored and controlled to minimize spoilage and theft. Currently, the review is being done in Michigan and Pennsylvania, but may be expanded to other States, if we see the need to.

The CHAIRMAN. Will you have a report on that?

Mr. CROWLEY. We just started.

The CHAIRMAN. But how long will it take? Until the end of the year?

Mr. CROWLEY. Let me give you a better date in about 1 month, after we have been out there in the field and have seen what is involved.

The CHAIRMAN. All right. That was an unfair question.

Mr. CROWLEY. We will do that.

The CHAIRMAN. This needs to be done, and I am glad you are doing it.

Mr. CROWLEY. We have also started additional reviews that are focusing on program systems for redetermining continued Food Stamp and AFDC Program eligibility and benefits—that is, the monthly reporting aspects of the program—and the existing and alternative ways of delivering food assistance benefits to program participants. Several years ago, we put out a report on the problems with the authorization-to-participate [ATP] system. We are going to be looking into some alternatives to the current ATP delivery systems. We are also looking at the authorizing and monitoring of retail vendors participating in the Food Stamp and WIC Programs.

All of these jobs that I just summarized for you are in early stages. We really do not have much comment on them at this point.

Mr. Chairman, that describes the work we are doing or have done. My colleagues and I will be happy to answer any questions you may have.

The **Chairman**. Well, thank you. That was a very comprehensive report that you have made, sir. Because of time, you gave scant description to the delivery system problem. This to me is one of the most important things, trying to come up with a system that is as devoid as possible of fraud, whether it be a credit card-type instrument or whatever, and of course, that involves complications, and it involves equipment, and all the rest of it, but surely, we can get a handle on it.

I am going to ask you a few questions, and then I will beg your indulgence to let us file some additional questions for response in writing.

Mr. **Crowley**. Surely.

The **Chairman**. I want to say that—and I say this very sincerely—that I personally appreciate the full cooperation that you folks have given us, not only with respect to this committee, but my office, as well. I know you get 10,000 requests for assistance and evaluations and investigations, but you have been mighty helpful to me and to all associated with me, and I want you to know I appreciate it.

Mr. **Crowley**. Thank you, sir.

As you know, it is good staff that does that for you, and these fellows have worked very hard.

The **Chairman**. Well, the good staff also will prompt some of the questions, too. That is the way the system works, and it is hard to keep our minds on any one thing when we are on about five different committees.

You, of course, are familiar with and have referred to the action taken by the Senate to require a income and eligibility and verification system for the various Federal welfare programs. This is consistent with the previous GAO report. Do you anticipate that system, when it evolves, will reduce the overissuance errors in the Food Stamp Program?

Mr. **Sargol**. Yes, Mr. Chairman. We have gone over the description of some of the amendments in the Congressional Record, and it seems to be right in line with some of the things that we have advocated in our reports.

The **Chairman**. Very good.

Do I understand your report to say that if the Food Stamp Program operated in the same fashion as the AFDC and SSI programs, there would be much larger sanction amounts?

Mr. CROWLEY. If the same system were applied to the Food Stamp Program, yes, there would be much larger sanction amounts.

The CHAIRMAN. So it is fair to say that the smaller sanction amount for food stamps results in the States focusing administrative attention elsewhere, like AFDC, for example? That is a hard question to answer.

Mr. CROWLEY. Yes, that is a hard question to answer at this point, Mr. Chairman. But you know, we have always pushed to have some financial responsibility placed on the States, and so far as we could see right now, the imposition or the threat of a sanction has produced, or seems to have produced, lower error rates. So on commenting on whether it is large enough——

The CHAIRMAN. You just sort of throw a dart at the donkey, don't you, in trying to come up with something. It has always seemed incongruous to me—and I have tried to discuss this back home with the various groups, and they do not understand it, either—that here, we have a situation where the Federal Government pays the States for Federal errors in the SSI Program, but as far as I know, the States are yet to be required to pay a dime to the Federal Government for the State errors. You know, tit-for-tat, and all of that. This is the kind of thing that needs to be put on a two-way street basis, it seems to me.

Mr. CROWLEY. Right now, the States have not done so, but the Federal Government has waived sanctions on the promise by the States that they will undertake certain actions to correct the problems, to do something to avoid the overissuances in the future. It has acted as a hammer over the States.

The CHAIRMAN. Well, this is what it was intended to do. So you think we are moving along.

Mr. CROWLEY. I think we are moving along, yes, sir.

The CHAIRMAN. OK. Now, sometime back, I raised a question about the WIC Program and its effectiveness. There is a feeling that the WIC Program is sacrosanct, but I just have the conviction that all Federal programs should be willing to stand intense scrutiny, because we are talking about billions upon billions of dollars. And I cannot exclude WIC or anything else—national defense, or whatever. I think we ought to look at all of them.

But on page 5 of your testimony, do you have any information on what the current distribution of recipients may be in the various categories? My understanding is that less than half of current WIC participants are in the so-called highest priority group; is that correct?

Mr. LOWRY. Mr. Chairman, if I could respond to that, it is very difficult to make generalizations about the WIC Program, because it is not just one program, but many different programs. From one agency to another, the programs differ substantially. So there are programs that, in our opinion, are quite highly targeted, in that they do serve a high percentage of pregnant, breast-feeding women, and infants, who are quite widely identified as the highest priority, the highest risk participants. There are others that are much less targeted, that have a substantial number of children certified for inadequate dietary patterns alone. This group of participants is widely regarded as being a lower priority.

So another really frustrating aspect of the WIC Program is the dearth of good program data. It simply has not been required in the past—I noticed that one aspect of your proposed legislation is better reporting of data on the operation of the WIC Program, including information on characteristics of WIC participants. But I cannot give you good information on the program's operations overall. It varies very much from State to State and within States, from one local agency to another.

The CHAIRMAN. But it goes back to the whole fundamental question of targeting. You have got to have the information on which to target because it is a targeting program. My impression, and I think it is your impression—correct me if I am wrong—that in the past, the States have simply been adding the WIC recipients in order to spend their allotted funds, without any targeting of assistance to these women, infants and children of the greatest need. It is all part and parcel of this targeting. Is that pretty much what the States have been doing?

Mr. SARGOL. Yes; if I might just go back to an earlier question you had, we did some work in about five States, and from a sample caseload that we selected to give us a rough idea of what the offices' caseload consisted of, we found that over half of the program participants were children, 25 percent were infants, about 15 percent were pregnant women, and less than 10 percent were postpartum women. That is kind of a bird's-eye view of what we found in those particular States, based on a sample. What it would be nationwide, I do not know.

The CHAIRMAN. Well, if we ever get the system tightened up so we know what we are doing, and the basis for what we are doing, maybe we will find that what is needed is not really more money, but better use of the money that is already provided. But that is yet to be determined, I suppose.

Well, as I say, I am going to have some other questions to file with you in writing, and if you will provide those for the printed record, it would be most helpful.

I want to thank all five of you gentlemen for coming up this morning and being patient as we went through this hearing. Thank you very much and have a good day.

I do not know where the gavel is, but the committee stands adjourned.

[Whereupon, at 12:08 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently received by the committee:]

ADDITIONAL QUESTIONS SUBMITTED TO BRIAN P. CROWLEY, U.S. GENERAL ACCOUNTING OFFICE BY SENATOR JESSE HELMS AND ANSWERS THERETO

Enclosure.

Question. Your work on food stamp wage matching seems to parallel that of the Inspector General—that is, that States are not following up on the required wage matching to detect fraudulent participation. Do you have any specific recommendations on how States can improve the followup from these "matches"?

Answer. Our upcoming report on states' Food Stamp Program wage matching systems and procedures will discuss two broad areas relating to matching operations. Our findings parallel those of the Inspector General and indicate that there are opportunities for (1) more efficient and effective identification of cases with potential unreported income, and (2) better follow-up and disposition of those cases to enable adjustment of monthly benefits, recovery of any overpayments, and pursuit of suspected fraud.

Identification of cases with potential unreported income.—There was general agreement among states we reviewed (Florida, Lousiana, New Jersey, New York, and Texas) that the success of wage matching is largely dependent on their capability to flag all potential error cases, including those of households that recently left the program, with a minimum of effort and to limit the cases referred for local office follow-up to those having material differences between the external and participant-reported wage data. The Food and Nutrition Service had not yet provided states guidance or specifications on automation of wage matching, caseload coverage, or referral criteria for follow-up on cases with indicated wage differences.

Follow-up of cases with potential unreported income.—Most of the cases we checked involved significant differences in reported wages, but for many there was no follow-up action, inadequate or incomplete follow-up, or no action to establish a claim. This was attributable to backlogs in follow-up work caused by use of manual rather than automated matching operations and inadequate controls and guidance to insure follow-up on all cases.

We also noted that the states we reviewed were using virtually the same procedures for carrying out wage-matching requirements for the Department of Health and Human Services' (HHS') Aid to Families with Dependent Children Program. HHS agreed that working cooperatively with Agriculture to improve their wage-matching systems would benefit both programs.

We are currently in the process of finalizing specific recommendations concerning wage-matching activities. We expect that our report will be issued in late summer of 1984.

Question. Two years ago, the GAO furnished the Committee a list of provisions enacted by Congress which had not been implemented. I wonder if I could call on you to update that list to indicate what provisions, according to your records, have not been implemented?

Answer. In June 1982, we furnished the Committee with a list of 20 major provisions from the (1) Food Stamp Amendments of 1980, (2) the Omnibus Budget Reconciliation Act of 1981, and (3) the Agriculture and Food Act of 1981, for which the Department of Agriculture's Food and Nutrition Service had not issued final regulations. As of July 24, 1984, final or interim final regulations had not been issued for one of those 20 provisions—dealing with disqualifications of households not meeting certain work requirements (Agriculture and Food Act of 1981). Four other provisions in that act, but not included in our June 1982 list of 20 major legislative provisions, still require regulations in order to be implemented. Fifty-nine additional legislative changes were made in the Food Stamp Program by the Omnibus Budget Reconciliation Act of 1982; by Public Law 98-107 (October 1, 1983); and by Public Law 98-204 (December 2, 1983). Final or interim final regulations had not been issued for 10 of those 59 provisions.

The following table shows the status of the Service's regulatory actions on the 15 provisions noted above. We will continue monitoring the Service's progress in issuing final rules for these provisions.

RECENT LEGISLATIVE PROVISIONS FOR WHICH THE FOOD AND NUTRITION SERVICE HAD NOT ISSUED FINAL REGULATIONS

Legislative provision	Status of rulemaking as of July 24, 1984
Agriculture and Food Act of 1981 (December 22, 1981):	
Required States to disqualify households which contain a member who did not meet the work registration or other work requirements of another Federal program if those requirements are similar to those in the Food Stamp Program.	Proposed rule issued May 24, 1983. Final rule expected in August 1984.
Required Food Stamp Program participants to register for employment once each year	Proposed rule issued May 24, 1983. Final rule expected in August 1984.
Authorized the Secretary of Agriculture to establish procedures for calculating the value of licensed vehicles when determining the resources of Food Stamp Program participants.	Proposed rule issued November 19, 1982. Final rule expected in December 1984.
Expanded the time period during which States must notify Food Stamp Program participants that their certification period is expiring.	Proposed rule issued November 30, 1983. Final rule expected in December 1984.
Provided the Comptroller General and law enforcement officials with access to the records of Food Stamp Program participants.	Proposed rule issued April 19, 1983. Final rule expected in September 1984.
Omnibus Budget Reconciliation Act of 1982 (Sept. 8, 1982):	
Authorized the Secretary of Agriculture to limit both the categories of households which can use authorized representatives and the number of households which an authorized representative may serve; Also authorized the Secretary to set criteria and verification procedures for selecting authorized representatives.	The Service said this provision was discretionary and that it did not intend to issue regulations because it did not currently view this area as a serious problem.
Increased the disqualification period by 30 days (from 60 to 90) for households in which the head of the household voluntarily quits a job without good cause.	Proposed rule issued May 24, 1983. Final rule expected in August 1984.
Provided that Federal, State or local employees fired for participation in a strike are to be considered as having quit voluntarily.	Proposed rule issued May 24, 1984. Final rule expected in August 1984.
Exempted all parents and caretakers of children under 6-years old from the program's work requirements.	Proposed rule issued May 24, 1983. Final rule expected in August 1984.
Allowed States to extend the job search requirement to food stamp applicants. (Program participants were already subject to the job search requirement).	Proposed rule issued May 24, 1983. Final rule expected in August 1984.
Prohibited an increase in food stamp benefits attributable to reduced benefits in another assistance program when such reduced benefits are caused by penalties for failing to comply with the other program's requirements.	Proposed rule issued April 19, 1983. Final rule expected in September 1984.

Authorized the Secretary of Agriculture to allow certain categories of households to report less often than every month in States which either (1) demonstrate that requiring monthly reports from certain types of households results in unwarranted administrative expenses or (2) request waivers to achieve consistency with HHS' Aid to Families with Dependent Children Program.	Proposed rule expected in December 1984. Final rule expected in June 1985.[1]
Public Law 98-204 (Dec. 2, 1983):	
Repealed the prohibition against cash benefits under the Puerto Rico nutrition assistance program.	Final rule expected in August 1984.
Allowed States that do not routinely collect wage data for administering their unemployment compensation programs to use comparable data from other sources to satisfy the wage matching requirement.	Proposed rule expected in October 1984. Final rule expected in March 1985.
Authorized the Secretary for Agriculture to approve state requests to (1) certify households subject to either monthly or periodic reporting for a shorter time period than the required 6-month minimum, (2) extend certification periods for certain households beyond the present 12-month limit, and (3) calculate income on a prospective basis for additional categories of households. It also described ways that households may satisfy periodic reporting requirements and stipulated that states could not require participants to file written reports on any eligibility factor more often than once a month.	Proposed rule expected in December 1984. Final rule expected in June 1985.[2]

---

[1] Food and Nutrition Service officials said they considered the waiver provisions to be self-implementing, but they had provided specific advice to their regional offices on some elements of the provision in a December 2, 1983, memorandum. The memorandum specified the criteria that the Service's regional offices were to use when approving state requests for waivers from the monthly reporting requirement. Service officials said that they had briefed many state officials and representatives of the American Public Welfare Association concerning the Service's waiver authority but that they had not officially notified states how they would be implementing their authority to grant states these waivers.

[2] Food and Nutrition Service officials told us that they had implemented some elements of these provisions through a December 2, 1983, memorandum to all Service regional offices. See footnote 1.

Question. Could you elaborate on what steps could be taken to encourage, or even require, greater targeting of benefits on the highest priority WIC recipients?

Answer. We are developing a report, which we expect to issue about the end of the year, on our review of Women, Infants, and Children (WIC) program operations in five states (California, Illinois, Minnesota, Nevada, and Pennsylvania) that will deal extensively with the nature and extent of targeting in those state programs and with steps identified by us and others for targeting WIC benefits more effectively. In this sense targeting means directing available WIC benefits on a priority basis to those groups within the defined WIC benefits on a priority basis to those groups within the defined WIC eligible population that medical science and evaluative evidence indicate are likely to benefit most from participation in the program. Program directors, nutritionists, and certifying officials with whom we talked generally agreed that these groups are pregnant women, breastfeeding women, and infants, and that in most instances, other eligible participants such as non-breastfeeding postpartum (after-birth) women and children constitute a lower priority in terms of potential benefit.

At the present time WIC legislation and rules actually require targeting only when WIC caseloads are full, and available funding does not permit enrollment of additional participants. Under these circumstances WIC agencies are to maintain waiting lists based on federal priority risk categories and are to enroll new participants from these prioritized lists as caseload openings become available.

There is no formal Service policy emphasizing targeting of program benefits to higher priority categories—while accepting any eligible applicants within the constraints of available funding. Program officials with whom we talked generally agreed that such a policy would put state and local agencies on notice that they are expected to target their programs. It also would provide a foundation for the Service to include targeting progress as a factor in its annual program funding decisions. (See following discussion.)

State and local program officials in the states we reviewed pointed out that changes in the way WIC funding is handled could reduce funding uncertainty and unpredictability and create a program management climate more conducive to targeting and cost-effective expenditure of program funds. They indicated that eliminating the periodic recoveries and reallocations of program funds and permitting a carryover of a limited portion of unspent funds from one program year to the next should further help promote program stability and management flexibility and create an environment more conducive to targeting. They acknowledged, however, that data on the composition of state agency caseloads is not routinely available to the Service as a basis for monitoring the extent of targeting in state programs and adjusting fund allocation formulas and guiding future funding decisions in light of the targeting progress being made.

Many WIC state and local agencies do relatively little targeted outreach focused on bringing into WIC those high-priority participants who stand to benefit most from being in the program. Some program officials believe there is a role for the service to play in assisting WIC agencies to develop more effective targeted outreach techniques, and in demonstrating how they might go about developing more effective referral networks with health care providers and social service agencies dealing primarily with high-risk WIC eligibles.

A number of the spending and caseload management pressures faced by WIC agencies encourage the use and perhaps the overuse and abuse of certain nutritional risk factors such as inadequate dietary pattern and prevention of nutritional regression. These factors are widely considered to be subjective "easy" factors which can be used when no other nutritional risk condition can be found to justify enrolling new participants or prolonging the participation of individuals already in the program. The use of such factors varies widely from local agency to local agency and from state to state. Many WIC nutritionists and administrators we contacted were in favor of (or not at all opposed to) restrictions on the use of these factors as a means of encouraging targeting to higher priority individuals.

Question. As you may know, I have recommended in S. 2545 that States be permitted to carry over as much as three percent of their annual WIC allocation to the next fiscal year. Does this adequately address the concept you described, or are you suggesting no limitation on carryover authority?

Answer. The Department has proposed the elimination of legislative provisions which require the periodic recovery and reallocation of funds from state agencies. Service officials have informed us, however, that elimination of the reallocation requirement would not in itself assure that WIC state agencies would be able to retain the full amount of their annual WIC funds. They said that explicit legislative authority is needed to provide WIC administrators with the kind of fund carryover flexibility which many have claimed would enhance their ability to manage caseloads and optimize use of limited resources. Carryover authority up to 3 percent of a state agency's fiscal year allocation would fall within the range most frequently cited by local and state administrators with whom we met in the course of our review.

APPENDIX

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Today the Committee continues its oversight of various programs within the Food and Nutrition Service. These include the food stamp, child nutrition, and commodity distribution programs. Cumulatively, these programs constitute the largest portion of the entire Department of Agriculture budget--and, as such, constitute one of the major responsibilities of this committee. The Administration has noted that through these programs about 95 million meals are subsidized every day--a number that has never been higher.

In previous hearings, both by the full Committee and the Nutrition Subcommittee chaired by Senator Dole, we have heard from a broad variety of witnesses who work with these programs, primarily at the state and local level. Today, we want to hear from those who oversee the programs from the Federal level--both those whose duty it is to administer the programs and those who serve as watchdogs for the public and the Congress. Of particular concern to the Committee this year is the operation of the child nutrition programs, five of which expire at the end of the current fiscal year.

As we move toward a markup next week, certainly the context of this and other committee deliberations this year continues to be the paramount concern with the overall budget situation of the Federal government. Long gone are the days when members can sit around the table and outbid each other driving up the expenditures for all of these programs. In the 1980's, we simply must operate within the realm of fiscal responsibility.

I know that there are members who sincerely feel that increases should be made in some, or all, of these programs. Other Senators believe, as I do, that further economies can be made without damaging the fundamental purposes of the programs, or affecting truly poor recipients.

For instance, I have proposed reforms in the food stamp program that would save over $1.5 billion over three years, primarily by making States more accountable and responsible for their overissuance errors. A new GAO report reinforces my view that we simply must require greater improvement in the States' administration of the program.

I have proposed reinstating the means test for children in day care homes receiving meals under the child care food program--a savings of almost $100 million simply by targeting benefits to the most needy.

I have proposed instituting a means test for participation in the summer food service program, a program that currently is not sufficiently directed to poor children.

These are reasonable, modest proposals that better target Federal dollars without reducing benefits to the truly needy at all. Our witnesses today may be able to suggest further improvements--with or without a budget impact.

I would say to those who favor any increases in these or other programs that they must address how they would pay for such increases. In reauthorizing the five expiring programs--as well as considering other programs--we simply must come up with a bill that has no net cost to the taxpayer.

Perhaps some priorities within these programs can be shifted. I'm certainly willing to work with Senators on that. But I cannot imagine that at a time of alleged concern with mounting deficits, Senators in this Committee or in the full Senate are going to be prepared to increase spending in these areas, no matter how politically attractive that option may seem to be.

Members of the House and Senate simply cannot be talking about concerns with deficits on the Floor one minute and then proposing multimillion dollar increases in spending in Committee the next. Budget deficits approaching $200 billion per year cannot be reduced by adding several million dollars more for various food assistance programs, no matter how well-intentioned.

Citizens who are just as concerned with child nutrition, for instance, as self-proclaimed advocates claim to be, have indicated that the action that would most help children--now and in the future--is for the Congress to reduce spending and thereby eliminate deficit spending. Only then will our children's future, and that of our children's children, be economically sound. All available data points to the fact that when government spending is managed in a fiscally responsible way it is the poor who are the first to benefit and it is the poor who benefit in the greatest proportion--from less inflation and lower interest rates.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Mr. Chairman and Members of the Committee, I understand the Administration sent its child nutrition legislation to the Hill yesterday, so this hearing is a very timely one for us to hear witnesses from the USDA Food and Nutrition Service, Inspector General's Office, and General Accounting Office.

During the past year, there has been a lot of media and congressional attention focussed on hunger problems in America. This has come at a time when the Federal government is serving more people through its nutrition programs than ever before, and has invested more Federal resources in providing food assistance than in the past. Last year, the Federal government spent close to 18 billion dollars on its various USDA-administered food programs. The food stamp program served about 23 million people and the WIC program grew to serve about 3 million women, infants, and children.

Child Nutrition Reauthorization

This year, the primary focus of nutrition legislation will be to reauthorize the expiring child nutrition programs. These include the special supplemental food program for Women, Infants, and Children, Nutrition Education and Training, State Administrative Expenses, and the Summer Food Service program, as well as the authority to purchase section 32 commodities. As usually happens when we go through this reauthorization process, we end up evaluating the effectiveness of all the child nutrition programs, including the school lunch, school breakfast and the child care food programs.

Task Force Recommendations

This past January, the President's Task Force on Food Assistance made a comprehensive report, which included many constructive recommendations for changes in Federal Food programs in response to "hunger" problems in this country. For example, the Task Force recommended for the Food Stamp program that the thrifty food plan be restored to its full 100 percent, that assets limits be raised, and that special accommodations be made to make the program more accessible to the homeless, etc. It remains for the Congress to act upon these proposals, but, given the timetable for the short election year session this year, we may never be able to pass legislation. This means that such recommendations will be more fully explored in the context of program reauthorization next year with the 1985 farm bill.

TESTIMONY OF MARY C. JARRATT
ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES
U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, and members of the Committee, thank you for the invitation to appear before you today to discuss the Administration's legislative proposals for Fiscal Year 1985. Accompanying me is Virgil Conrad, Deputy Administrator for Family Nutrition Programs of the Food and Nutrition Service, and George Braley, Deputy Administrator for Special Nutrition Programs of the Food and Nutrition Service.

At the outset, I can report to you that the network of food assistance programs operated through the Food and Nutrition Service - of which the Food Stamp Program is the principal vehicle for low-income nutrition assistance - has functioned well during recent difficult times. We remain committed to administering these programs in a manner which ensures that eligible beneficiaries are well served. At the same time, we intend to continue to seek better management techniques and to attack fraud, waste, and abuse. Only with this dual effort can we assure the legitimacy of food assistance programs in the eyes of the taxpayers.

It is our strong sense that the present level of budgetary support for food assistance would be sufficient if further error reductions, administrative simplifications, and work incentives were implemented. The Food Stamp Program currently serves 21 million people in 7.5 million households on average each month (and 36 million people in 13 million households over the course of a year). At the same time we have had the largest caseload in the history of the program, we have made considerable progress in reducing the error rate. We have seen the overpayment error rate drop from 10.4 percent in 1981 to 8.2 percent in 1983, a 20 percent reduction in two years. However, an 8 percent error rate is still unacceptably high. Overpayments cost the US Taxpayers $900 million in 1983. That sizeable federal resource was paid in error to persons who did not meet the standards legislated by Congress.

The current economic recovery will reduce both the size and cost of the Food Stamp Program next year. We have seen a rapid improvement in the unemployment rate over the last 15 months, falling almost 30 percent between December 1982 and February 1984. We expect still more improvement in the months to come. The budget submitted by the President assumes that the average unemployment rate in all of Fiscal Year 1985 will be 7.8

percent. This is a fairly conservative assumption since the unemployment rate in February 1984 was also 7.8 percent. With this assumption, we expect the Program to reach an average of 20 million people each month next year.

Now that we have embarked upon a vigorous economic recovery which can be expected to provide more jobs for needy low-income persons now receiving public assistance, we must do all that we can to sustain that growing economic prosperity. We must critically examine expenditures when we are faced with the terrifying implications of tomorrow's rampant budget deficits. The Federal commitment to feeding low-income persons is substantial. USDA alone subsidizes totally or in part 95 million meals a day, or about 14% of the daily meals consumed in the country. This is a very sizeable commitment.

Now, I would like to discuss our major legislative proposals for the Food Stamp Program. Our proposed changes will go a long way to meet the goal of simplification and to enhance program integrity. I'll now briefly summarize our recommendations.

First, households containing only recipients of benefits of the Aid to Families with Dependent Children (AFDC) program would be categorically eligible for the Food Stamp Program. This would streamline application processing for about one of every four households. Because of the similarity in the financial eligibility criteria for the two programs, there is now a great deal of duplication in the separate application processes. This provision would eliminate that duplication, simplify administration, and enhance compatibility between the two programs. Eligibility workers would be freed to spend more time with other recipients, including those cases more likely to result in error.

Second, we propose to make the now optional Community Work Experience Program (CWEP) mandatory. Under this program, able-bodied but unemployed food stamp recipients would be required to perform work to "pay" for the value of their benefits. Failure to do so would result in a two-month disqualification for the household. States would be provided with maximum flexibility to design and operate programs best suited to their particular needs. To assure that CWEP's are properly administered, States are required to offer employment or community service opportunities. We see this provision assisting participants by providing needed exposure to the work environment and strengthening the work ethic. Being able to work will give recipients a new dignity and self-esteem. In addition, this work experience gives the able-bodied unemployed an opportunity to repay the community their Food Stamp benefits. The community will also benefit through the provision of useful public services.

Finally, we would tighten the liability system which penalizes States for excessive errors. Under current law, States are liable for errors due to inaccurately determined eligibility and/or benefit levels when these errors exceed 7 percent of their total issuance. A 5 percent tolerance goes into effect in October, 1984. Liability is assessed retrospectively, and represents a percentage reduction of the State's administrative funding grant. Our proposal would reduce the tolerance level to 3 percent, effective October, 1984. It would require States to repay the full value of payment errors in excess of this standard. It would be assessed prospectively, based on a State's most recent error rate and on its share of a projected national dollar loss. After actual data were available and confirmed, appropriate adjustments would be made. We feel this proposal is vital.

States lack the incentive to improve their administration of the program since benefits are 100% federally financed. In Fiscal Year 1985, States will continue to misspend over $820 million in Federal funds by issuing erroneous Food Stamp payments.

To enhance State accountability, the President's budget assumes full State liability for payments exceeding 103% of proper Food Stamp expenditures. The new targets would encourage States to make further progress in reducing errors. This proposal would set the Food Stamp error targets at the same level as those currently applicable for AFDC and Medicaid. The lower target in no way affects the benefits of eligible recipients.

To summarize, these proposals will improve management of the Food Stamp Program and reduce costs, but will not reduce benefits for those who need to supplement their food purchasing power with government assistance and who meet their responsibilities toward the program. These proposals are offered in the broader context of fiscal restraint and the need to reduce the Federal deficit.

The Administration's legislative proposals concerning child nutrition and commodities are several in number. They continue the effort to focus assistance on needy children and to simplify program administration.

First, we propose to extend the authorization of state administrative expenses for one year. We believe that there are problems with the existing SAE formula that create inter-state inequities and which deserve careful study before a lengthier authorization is prudent. Also, our proposal would limit the amount of unused funding that States can carry over from one fiscal year to the next. In this way the Department can reduce the large amounts of unused SAE from prior years currently outstanding in some States.

Second, we would strengthen procedures for verifying eligibility for free and reduced price meals. Since implementation of the income verification requirements in the school lunch program, savings have accrued to the Federal government. Our proposal would help defray locally borne costs of verification by reimbursing the administrative costs incurred by food stamp offices in providing a certificate of participation to food stamp households applying for free meals.

Third, we would create an independent special assistance factor for reduced-price meals in school-based programs. As a result, reimbursement rates for meals in all price categories would be increased by the same cost-of-living adjustment. Because the current law ties the reduced-price subsidy to the free subsidy (it is currently 40 cents less for lunches and 30 cents less for breakfasts), reduced-price meals receive a higher increase when an adjustment for inflation is made.

Fourth, we would consolidate the Summer Food Service Program and the Child Care Food Program into a non-school program grant to States. This grant would be funded at the 1985 current services level for the two programs it would replace. Meal assistance for Head Start centers, at present funded under the Child Care Feeding program, would be available through a corresponding increase in Head Start funding. The non-school program grant will substantially increase State flexibility and achieve two major effects. First, administrative efficiencies will be realized through a reduction in program complexity. Second, States will be able to tailor programs under this grant to meet the specific needs of their State's population. Primarily, funds would be targeted to meet the needs of children of low-income households.

Fifth, we would discontinue federal funding for the Nutrition Education and Training Program. This program, authorized in 1977, originally provided seed money for the States to begin or augment existing nutrition education programs. These programs are now well established and the Federal purpose has been served. Now the States should be given the opportunity to determine and implement their own nutrition education programs.

Sixth, we would eliminate the direct Federal administration of Child Nutrition programs. Currently, the Food and Nutrition Service operates Child Nutrition Programs, including the Special Milk Program, in States which do not administer these programs through their own agencies. FNS Regional Offices currently operate portions of the school nutrition programs in 14 states, the Child Care Food Program in nine States and the Summer Food Service Program in 17 States where State law or policy prevent State agencies from doing so. The burden of administering these programs, added to the Regional Offices' normal duties, creates an immense workload for these offices. Since States are responsible for making Federal programs available to their citizens, it is an inappropriate use of Federal resources to act as a State agency in administering these programs. Finally, this action would resolve some of the ambiguities created by having differing rules for States and Regions with respect to audit closures, report submission deadlines, etc.

Seventh, we would extend for a year the authorization to use Section 32 funds to provide agricultural commodities to programs operating under the National School Lunch Act, and the Child Nutrition Act of 1966. The current authorization expires on September 30, 1984. Also, we would require that commodity entitlements be based on the actual number of meals served during the previous school year instead of an estimate of the number of meals that will be served. This change will enable the Secretary to establish commodity amounts for each State at the beginning of the year based on the actual data reported by States. States will have greater assurances of the level of commodities they will receive during the year and, therefore, will not face the prospect of revised commodity levels because the Department changes its projection of the number of meals served during the year.

Eighth, we would extend the Special Supplemental Food Program for Women, Infants and Children (WIC) for one year. Several studies concerning WIC are due to be reported within the year, and we believe it is essential to incorporate these study findings into re-authorization deliberations. In addition, our proposal would eliminate the provisions which require regular reallocation of program funds. WIC Program administration has improved over the years and States are not experiencing problems with unspent funds. Rather, States are spending according to plans established at the beginning of each fiscal year. By eliminating the reallocation provisions, States will be assured of their annual grant and the Agency will not be required to perform reallocations of the ever decreasing pot of excess funds.

Further, our proposal would reduce the amount of money set aside for administration of WIC from 20% to 18% of the appropriation. In a time of limited resources it is important to restrain overhead costs so that a greater proportion of program funding is devoted to supplemental food assistance. The program has been operating on a stable basis for several years so States are in a good position to strengthen their operating processes to make them more efficient. As a further help, the Department also proposes to remove the requirement to spend one-sixth of these funds for nutrition education. However, States will still be required to be provide nutrition education.

Mr. Chairman, that concludes my formal remarks. I will be pleased to respond to questions.

#

STATEMENT OF
BRIAN P. CROWLEY
SENIOR ASSOCIATE DIRECTOR
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION
UNITED STATES GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee:

We are here today at your invitation to discuss work relating to the Department of Agriculture's domestic food assistance programs. You asked that we discuss the Food Stamp, Child Nutrition, and special commodity distribution programs, and that we provide information from completed reports as well as any ongoing related work.

My presentation today will focus on the following issues: (1) overissued Food Stamp Program benefits; (2) wage matching, collections, and corrective action plans in the Food Stamp Program; (3) error-rate sanction systems for needs-based programs; (4) benefit targeting and related issues in the Special Supplemental Food Program for Women, Infants, and Children (WIC); (5) School Lunch Program participation; (6) the special commodity distribution program; and (7) recently started work involving eligibility redeterminations in the Food Stamp and the Aid to Families with Dependent Children (AFDC) Programs, food stamp benefit delivery systems, and the authorization and monitoring of retail vendors in the Food Stamp and WIC Programs.

OVERISSUED FOOD STAMP BENEFITS

In a report[1] issued in February 1983, we discussed the need to recover Food Stamp Program costs attributed to errors or fraud. We noted that total overissued program benefits (including excess benefits to eligible persons and benefits issued to ineligible persons) were about $1 billion a year and, in fiscal year 1981 (the latest period for which we had information at the time of that review), represented about 10 percent of all benefits issued. More recent data shows that error rates have declined but, because of increases in total program outlays, overpayments still approach $1 billion a year. The annual dollar loss is equivalent to what is spent to provide food assistance to almost 2 million needy people. Our report discussed the need for states to identify specific overissuance cases and take action to collect overissued benefits and pursue suspected fraud.

Since then, we have initiated several follow-up reviews and have started work in other food assistance areas. Some of these efforts address both the Food Stamp Program and the AFDC Program which is administered by the Department of Health and Human Services.

WAGE MATCHING

In our February 1983 report, we noted that wage matching, required by law in both the Food Stamp and AFDC Programs, is a promising technique for identifying erroneous earnings information reported by households participating in needs-based programs. Basically, it involves comparing household-reported earnings with wage information available from an independent source--generally the state agency administering the unemployment compensation program. Wage differences noted in the comparison are then followed up, resolved, and remedied as necessary through adjustments of current benefits and collections of prior overissuances. States also can pursue suspected participant fraud or misrepresentation through administrative hearings or through the courts.

---

[1] Need For Greater Efforts To Recover Costs Of Food Stamps Obtained Through Errors Or Fraud, (GAO/RCED-83-40, Feb. 4, 1983).

We recently completed field work on a review of Food Stamp wage matching in five states (Florida, Louisiana, New Jersey, New York, and Texas). In four of the five states, automated systems were not routinely used to identify participants whose food stamp records showed reported wages differing materially from wage data independently reported by employers. Also, in four of the five states, members of households that had formerly participated in the program were not always subject to wage matching for the periods when they received benefits. About two-thirds of the approximately 700 randomly selected cases we reviewed in local offices in the five states showed significant differences (averaging over $900 per case for a 3-month period) between independent employer-reported wage data and the household-reported earnings shown in program casefiles. We selected the cases we reviewed from those for which independent wage data had been referred to local program offices 6 to 12 months earlier so that sufficient time would have been available for local offices to identify and resolve any inaccuracies in participant-reported income.

Our work indicated that about 90 percent of the cases with differences were not handled properly by the local offices. The problems involved local offices' not taking appropriate steps in manually matching independent wage data with earnings data in program casefiles, not consistently following up and resolving indicated differences, and not using the results to adjust current participants' benefits or establish claims for prior-period overissuances. Indications were that Agriculture and the states could have provided better guidance, assistance, and training on how to efficiently carry out wage-matching responsibilities.

The Food Stamp and AFDC Programs are administered by different federal agencies but a single state administrator often has responsibility for both programs; the same local offices usually administer both programs; and the same wage matching system was used for both programs in the states we reviewed. About 150 of the Food Stamp households with differences in reported earnings also had received AFDC benefits based on apparently inaccurate earnings data. The results of our review of those cases indicated that states were experiencing the same types of problems with wage matching for both the Food Stamp and AFDC Programs.

COLLECTIONS

We also noted in our February 1983 report that states collected only about $20 million for a 2-year period, or about 1 cent of each overissued Food Stamp dollar. State officials often cited the absence of sufficient financial incentives and effective collection tools as reasons why their collection activities had not been more aggressive.

The Congress recognized the need to increase recoveries and strengthened collection techniques by requiring states to use recoupment; that is, to recover overissuances from current AFDC and Food Stamp participants by reducing their monthly benefits. To give states greater incentive to collect more overissued benefits, the Congress also allowed states to keep 25 percent of Food Stamp collections on claims caused by nonfraud participant errors.

We are currently making a followup review to determine what effect these changes have had on states' collection efforts in the Food Stamp and AFDC Programs. Preliminary indications are that collections are increasing, but we are finding evidence that states were not making maximum use of the recoupment method because they did not give priority to processing backlogged claims involving current participants. In addition, Food Stamp procedures for notifying participants regarding amounts owed and initiating recoupment procedures are time consuming. Also, indications are that states' primary method for collecting from households no longer receiving benefits is to send letters requesting repayment, rather than using additional collection techniques such as intercepting state income tax refunds.

Food Stamp legislation requires that benefit overissuances to participating households be recovered by reducing monthly benefits; however, this requirement applies only to participant-caused errors. In our 1983 report and in subsequent testimony before a subcommittee of the House Committee on Agriculture, we recommended that the Congress amend the Food Stamp Act of 1977 to conform with AFDC legislation which provides for mandatory offset against AFDC participant benefits for overpayments caused by any type error--whether agency caused or recipient caused. A provision in S. 1993, under consideration by this Committee, would accomplish this change. We also recommended that states be required to take appropriate action under state law to recover overissuances against the income or resources of individuals or households no longer receiving benefits. Our ongoing work is reconfirming the need for these changes.

CORRECTIVE ACTION PLANS

Within the next few weeks we will be issuing a report on the corrective action process--Agriculture's management system for having states identify and correct problems in the Food Stamp Program. During our review in five states (Maryland, Illinois, Ohio, New Mexico, and Texas), we found that Agriculture has encouraged better management, but some areas need further attention.

State corrective action plans did not always address serious problems such as identifying overissued benefits, collecting overpayments, and pursuing fraud, and some states did not always follow federal requirements to monitor and evaluate local offices' progress in carrying out the corrective actions included in state plans. We also found that federal regulations, which required states to make reviews taking a great deal of time and resources, had not been updated for several years and did not cover such key program functions as wage matching and the recoupment provision for recovering overissuances.

ERROR-RATE SANCTION SYSTEMS

In response to your request, we recently completed a review of existing procedures for holding state and federal organizations financially responsible for excessive errors in the day-to-day administration of the Food Stamp, AFDC and Supplemental Security Income (SSI) Programs. Our analysis of these systems shows that error-rate targets (maximum acceptable percentages of erroneous payment errors) established for the programs have differed by year, by program, and from state to state for the same program. Beginning in fiscal year 1985 and continuing thereafter, all states will have a 5 percent target for Food Stamps, 4 percent for SSI, and 3 percent for AFDC.

The dollar bases to which any excess error rate percentages apply in calculating sanctions also differ between programs. Because of these differences, the sanction system used in the Food Stamp Program (based on state administrative costs) results in proportionately smaller sanctions for excessive errors than the AFDC or SSI sanction systems (based on total benefits issued).

Although sanction systems can be an effective program management tool, sanctioned states have not paid the federal government for any of the sanctions assessed against them for the billions of federal dollars lost through food stamp or AFDC benefit overpayments. USDA and HHS have authority to waive, under certain conditions, sanctions assessed against states, and have done so in many cases based on such things as states' developing plans for taking corrective action.

In contrast, the federal government has acknowledged liability or paid states about $160 million assessed against it since 1974 for excessive overpayments of state-financed SSI Program benefits. There is no waiver provision to relieve the federal government of its financial liability for excessive overpayments of state-financed SSI benefits.

USDA and HHS data shows that error rates have dropped more in the Food Stamp Program than in the AFDC or SSI Programs but are still higher than those for the other two programs.

WIC PROGRAM TARGETING AND RELATED ISSUES

To be eligible for WIC benefits, applicants must meet income limits established in accordance with federal requirements and be considered "at nutritional risk" on the basis of state-established risk criteria. WIC has grown rapidly in recent years. Monthly participation is now about 3 million women, infants, and children, and annual program costs are about $1.2 billion. Program officials recognize that budgetary constraints are likely to slow program growth in future years. Our recently completed field work on the WIC Program focused on what could be done to better direct limited funds to those considered to be at greatest nutritional risk. We found broad agreement among program directors, nutritionists, and certifying officials that pregnant women, breastfeeding women, infants, and children under age three (in roughly that order) were more likely to be at risk because of inadequate income, health care, or both, and more apt to benefit from timely WIC intervention than non-breastfeeding women and older children. There also was substantial agreement that targeting program benefits to the groups at greater risk would represent an appropriate strategy for optimizing program impact and insuring effective use of limited funds.

Our work in five states (California, Illinois, Minnesota, Nevada, and Pennsylvania) showed relatively little targeting being done. Current program rules do not require or even encourage targeting except under circumstances where a state or local agency program has attained maximum caseload; that is, when available funding will not support further increases in the number of participants. In such an event, WIC agencies are required to maintain applicant waiting lists grouped according to federally-prescribed priority risk categories and to enroll from these lists on a one-for-one replacement basis only as other participants come off the program.

However, since an agency may be in a maximum-caseload targeting situation for only limited periods of time during a program year, or perhaps not at all, it would not be required to target just when targeting would make the most sense and would likely be most productive; that is, when available funds would enable it to increase enrollment by taking on new participants. Based on our work and discussions with program officials at locations we visited, it appears that Agriculture could do more to emphasize targeting as a principal program objective, make state agency performance in this area a major focus of its WIC management evaluations, build-in targeting performance as an incentive factor in its fund allocation formula, and help states to target their outreach and develop health care networks to assure referrals of high risk applicants to their WIC programs.

Our work also touched on two related points dealing with WIC funding and WIC eligibility standards and procedures. We found broad agreement that when WIC funding uncertainties continue into the program year and their ultimate resolution results in more or less program funds than originally anticipated, state and local agencies have difficulty planning and managing their caseloads and have to make special efforts to avoid the risk of having Agriculture recover and reallocate any unspent WIC funds to other states. Some local agency directors told us that the pressures to enroll participants quickly and to maintain participation at the new, higher caseload levels made possible by infusions of additional funding at unpredictable intervals often turn WIC into a "numbers game" where the relative health risk or need of those served becomes less important than simply filling the available caseload slots.

These kinds of pressures are at odds with the concept of targeting to priority needs because WIC agencies sometimes feel that, to avoid the possibility of losing WIC money, they have to spend the money quickly on the most accessible eligibles available without necessarily considering the relative priority of their needs. Some WIC officials agreed that a more stable funding approach—including authority for states and WIC agencies to carry over part of their program funds, without loss, from one year to the next--would provide them needed management flexibility and opportunity for targeting initiatives.

Our analyses and discussions at local WIC offices also have suggested a need to refine and tighten some of the nutritional risk criteria presently used to enroll WIC participants, and to make it more uniform nationwide. The nutritional risk criteria differ from state to state and result in disparities as to who can qualify for the program. For example, someone at risk for anemia in one state would not necessarily be considered at risk in another. One state may consider consumption of more than a minimal amount of caffeine in tea, coffee, or colas as a risk factor for pregnant women while another may not. States also differ as to the age cutoff used for defining the risk factor of adolescent pregnancy—such age may vary from less than 15 years of age (at the time of conception) in one state to age 19 or under in another. One of our earlier reports[2] addressed this same general issue and pointed out the need to assure WIC applicants more equitable access to program benefits regardless of where they live. Also, although WIC participants are to meet established income criteria based on family size, we noted that WIC regulations do not require documentation of income eligibility. WIC certification workers commonly accept an applicant's word on family income.

We expect that a report on our WIC review and the points we have discussed here will be issued later this year.

SCHOOL LUNCH PROGRAM PARTICIPATION

In a report[3] issued last month, we discussed School Lunch Program participation and federal expenditures for free, reduced-price, and full-price lunches for the 1979-83 period during which the 1980 and 1981 Reconciliation Acts took effect. The report pointed out that student participation in the program declined from 27 million in fiscal year 1979 to 23.1 million in fiscal year 1983 primarily because fewer students ate full-price lunches. As a result, 1982 marked the first time in program history that schools served more free and reduced-price school lunches than full-price lunches.

Between fiscal years 1979 and 1983, the number of schools participating in the School Lunch Program and the enrollment of those schools decreased by 4.1 percent and 8.7 percent, respectively, slightly outpacing the drop in the total number of schools and student enrollment nationally.

The report points out that since 1979, the number of families with children eligible for free lunches increased by 27.5 percent and that federal expenditures for these lunches increased at about the same rate. The number of families with children eligible for reduced-price lunches increased (7.6 percent) while expenditures for these lunches decreased (12 percent). The number of families with children that would have to pay the full price for lunch and the federal dollars spent on these lunches decreased by 12.2 percent and 43.8 percent, respectively. Total federal expenditures for the School Lunch Program in fiscal year 1983 were about $3.2 billion--greater than at any time except for the peak year of 1981.

---

[2] The Special Supplemental Food Program For Women, Infants, and Children (WIC)--How Can It Work Better? (CED-79-55, Feb. 27, 1979).

[3] Participation in the National School Lunch Program (GAO/RCED-84 132, Mar. 30, 1984).

COMMODITY DISTRIBUTION

We also have reported[4], at the request of this committee and others, on the administration and success of a special commodity distribution program started in December 1981 to provide surplus dairy products to needy persons and to concurrently reduce federal costs of acquiring and storing surplus products. The value of government-owned dairy products increased from $569 million in September 1979 to $3.7 billion in September 1983.

Agriculture had not developed national quidelines to ensure that only the needy participated in the distribution program because it believed that large scale federal involvement would have conflicted with the program's temporary and volunteer nature. It considered states to be more aware of who needed assistance.

As a result, we found that program administrative practices varied widely among states and, in some cases, by locality; program abuses occurred; and displacement of commercial sales was greater than necessary. During our review in eight states (California, Iowa, Massachusetts, Minnesota, New Jersey, Texas, Utah, and West Virginia) in June and July 1983, we found that five had established income limits ranging from 135 to 185 percent of OMB proverty guidelines. The other three relied on participants' verbal statements that they were needy. Two states would provide donated food to anyone over age 60. Another offered assistance to any unemployed person.

Existing state participation criteria was not adequately enforced. Only three states required identification or proof of eligibility. Distribution agencies in the other five states did not generally require this information, thus foregoing opportunities to deter or prevent persons from receiving duplicate benefits or high-income persons from participating.

There were other program administrative differences in the states we visited. Distribution frequency varied from monthly to twice annually. Some states provided a fixed amount for each household; others offered variable amounts depending on household size.

The program's effectiveness in reducing federal purchases and inventories has been lessened to the extent that donated government-owned dairy products have reduced (displaced) commercial sales. Although cheese and butter valued at $755 million and $261 million, respectively, were distributed between December 1981 and September 1983, Agriculture's inventory of these products increased from about 1.1 billion to about 1.5 billion pounds during this period due to increased purchases of surplus commodities.

Agriculture's June 1983 study and nearly all of the government and industry officials we talked with attributed recent declines in commercial sales in part to the special distribution program. Both the study and industry officials we talked with said that the upward trend in sales of American-type cheese ended when Agriculture began distributing large quantities of cheese, while the upward sales trend for other types of cheese continued.

---

[4] Improved Administration of Special Surplus Dairy Product Distribution Program Needed (GAO/RCED-84-58, Mar. 14, 1984).

There was no usable data on the extent of commercial sales displacement by state. Although a survey of participants might, in theory, have yielded such information, we decided that such a survey would be impractical. However, using a set of stipulated (assumed) conditions we conservatively estimated, with the help of a consultant, that about 32 million pounds, or 31 percent, of the 103 million pounds of cheese distributed from December 1981 to April 1983 in the eight states included in our review would have displaced sales.

Legislation adopted in September 1983 requires states to establish eligibility criteria and Agriculture to take necessary precautions to assure that the distributed commodities do not displace sales. We recognize that Agriculture has to balance three objectives in carrying out the program: reduce inventories, feed the needy, and minimize displacement. Accordingly, we recommended in our March 1984 report that Agriculture establish parameters for state eligibility criteria based on the amount of commercial sales displacement likely to occur at various household income levels. We also recommended that Agriculture require states to develop reasonable controls over the distribution of the products to minimize program abuse.

OTHER ONGOING REVIEWS OF FOOD ASSISTANCE PROGRAMS

At the request of several Members of Congress, we recently began a review of the adequacy of Agriculture's procedures to assure that surplus foods are being properly stored and controlled to minimize spoilage and theft. Currently, the review is being done in Michigan and Pennsylvania but may be expanded to other states if warranted.

We also have started additional reviews that are focusing on program systems for (1) redetermining continued Food Stamp and AFDC Program eligibility and benefits, (2) existing and alternative ways of delivering food assistance benefits to program participants, and (3) authorizing and monitoring retail vendors participating in the Food Stamp and WIC Programs.

Redeterminations

All households participating in the Food Stamp Program must be periodically recertified for continued benefits and must report any interim changes affecting eligibility. Concerns that such changes were not being reported led the Congress to require program participants to submit information on their income and other eligibility factors each month. We have started a review of monthly reporting procedures in four states (Kentucky, Michigan, North Carolina, and Wisconsin) to assess how well the Food Stamp and AFDC monthly reporting processes are working. We expect to have a report on the results of this work early next year.

Alternative delivery systems

In 1982 we reported[5] that the authorization-to-participate card system used to distribute Food Stamp benefits was vulnerable to fraud and resulted in the loss of millions of federal dollars. The Congress has authorized Agriculture to require states to modify existing issuance systems where necessary to prevent losses, and Agriculture has funded a demonstration project to explore alternative issuance systems. We have an ongoing review that will assess progress made in reducing losses and provide information on system modifications that some states are using or planning for issuing Food Stamp benefits. These systems range from state-of-the-art techniques such as credit-card type instruments with encoded micro chips, to more basic approaches such as requiring participants to pick up food stamps in person at designated locations.

---

[5] Millions Could Be Saved By Improving Integrity of the Food Stamp Program's Authorization-To-Participate System (CED-82-34, Jan. 29, 1982).

Retailer compliance

The WIC and Food Stamp Programs both use food-purchase instruments (coupons and vouchers) and deliver food assistance to participants through retail food vendors such as grocery stores and, in the case of WIC, drug stores. Also, both programs are susceptible to problems and abuses such as "cashing out" of benefits and using program benefits to obtain other than eligible or prescribed food items. As a follow-up to an earlier report[6], we have recently started a review that will examine, compare, and evaluate federal and state procedures for authorizing WIC and Food Stamp retailers, monitoring retailers on a routine basis to assure continued compliance with program requirements, and investigating and dealing with those who violate program rules. By examining both programs simultaneously, we believe we will be better able to identify their joint as well as separate strengths and weaknesses.

- - - -

That concludes my statement. We will be glad to respond to your questions.

---

[6] Regulation of Retailers Authorized To Accept Food Stamps Should Be Strenghtened (CED-78-183, Dec. 28, 1978).

(The General Accounting Office released a report on April 25, 1984, entitled "Improved Administration Of Special Surplus Dairy Product Distribution Program Needed (GAO/RCED-84-58). The digest from that report is printed below.)

IMPROVED ADMINISTRATION OF SPECIAL SURPLUS DAIRY PRODUCT DISTRIBUTION PROGRAM NEEDED

DIGEST

The U.S. Department of Agriculture (USDA), through its Dairy Price-Support Program, has purchased large quantities of butter, cheese, and nonfat dry milk in recent years. As a result, USDA-owned inventories of dairy products increased from about $569 million at the end of fiscal year 1979 to $3.7 billion at the end of fiscal year 1983.

In response to the Congress' directive to reduce the dairy inventories, USDA, in December 1981, began making cheese available to states for distribution to the needy. This effort evolved into a temporary special distribution program under which butter, cheese, and other USDA-owned products were provided to the needy. This program, which is administered by USDA's Food and Nutrition Service (FNS), is in addition to other existing commodity donation programs, such as the School Lunch Program. In carrying out commodity donation programs, the Secretary generally has to balance three objectives: reduce surplus inventories, feed the needy, and minimize disruption (displacement) of commercial sales. Legislation enacted in September 1983 reemphasized these objectives and extended the program through fiscal year 1985.

The Chairman, Senate Committee on Agriculture, Nutrition, and Forestry; the Chairman, House Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, Committee on Agriculture; and Representative Cooper Evans asked GAO to determine whether program administration adequately ensured that products were provided only to the needy and to develop estimates on the extent to which donated products displaced commercial sales.

GAO believes that the absence of national program guidelines on such key issues as target population to be served and controls to assure that participants are eligible contributed to widely varying programs among the states and, in some states, among localities. As a result, abuses occurred and displacement of commercial sales was greater than necessary.

In making its review, GAO visited eight states (California, Iowa, Massachusetts, Minnesota, New Jersey, Texas, Utah, and West Virginia) to (1) obtain information on the eligibility criteria used and the controls in effect to assure that program participants met the established eligibility criteria and (2) develop estimates of commercial sales displacement resulting from the program. The eight states accounted for about 30 percent of all the cheese distributed nationwide in 1982.

The states were judgmentally selected by GAO on the basis of (1) geographic dispersion (two states from each of four geographic areas in the United States used for USDA's household food consumption surveys), (2) quantities of cheese donated (some low and some high), and (3) using FNS information, the relative restrictiveness of the states' program eligibility criteria (some strict and some not strict). Because the states were judgmentally selected, the results of GAO's review are not projectable to the nation.

GAO focused its review on cheese donations because cheese was the major product distributed under the program; however, it did make a limited analysis of butter donations. From December 1981 through September 1983, about 510 million pounds of cheese valued at about $755 million and 174 million pounds of butter valued at about $261 million were distributed nationwide.

PROGRAM ELIGIBILITY CRITERIA AND CONTROLS

FNS delegated much of the responsibility of administering the special distribution program to the states, including establishing eligibility criteria and procedures used to verify eligibility and determining frequency of distributions and quantities to be distributed. Some states, in turn, further delegated these responsibilities to local distributing agencies, which include local governments and private charitable organizations.

FNS did not provide national program guidelines to the states because it believed that large-scale federal involvement was contrary to the temporary and volunteer nature of the distribution and because it considered the states to be in a better position than FNS to decide who needs assistance. As a result, program administration varied widely among the states and, in some cases, by locality.

In the eight states GAO reviewed, program eligibility guidelines and controls varied from a simple requirement that participants state that they were needy to requiring documented evidence that participants met established eligibility criteria, such as an income standard. At the time of GAO's visits to the states in June and July 1983:

--Three of the eight states had not established any needs test but generally relied on "self-declaration of need" by program participants. The remaining five states used an income standard as one basis for determining eligibility, with the maximum qualifying income ranging from 135 to 185 percent of poverty-income guidelines. Two of the eight states specified that anyone over 60 years of age could participate in the program regardless of need, and one state used unemployment as eligibility criteria.

--Distribution frequencies and quantities of products made available to participants also varied. In some states and localities distributions were made monthly while in others they were as long as 6 months apart. Also, some states and localities provided all participants the same quantity of product; others varied the quantity based on household size. (See pp. 6 to 8.)

Controls over the distribution of products were generally inadequate to prevent program abuse. Only two states required participants to show both identification and proof of eligibility. One state required participants to show identification only. In the remaining five states, local distributing agencies did not generally require participants to show either identification or proof of eligibility. Identification helps deter individuals from using fictitious names and provides a basis for checking on whether individuals received multiple issuances of products. (See pp. 8 to 10.)

Through March 1983, FNS encouraged the states to expand their programs by using more liberal eligibility criteria and by increasing the quantity of products given participants. GAO noted instances where regional officials successfully encouraged the states to use more liberal eligibility criteria.

Until April 1983, when FNS cut back on the quantities of products made available, the states were able to order virtually unlimited amounts with little or no concern about the quantities of products given individuals. In one state, a seven-person household was entitled to 15 pounds of cheese each month; however, based on USDA's household food survey,[1] the average seven-person household normally consumes less than 7 pounds of cheese a month. (See pp. 10 to 13.)

Legislation enacted on September 2, 1983, extending the program through fiscal year 1985 requires several program changes which should result in more uniformly administered state programs. Among other things, the law requires each state, with the Secretary of Agriculture's approval, to establish program eligibility criteria. Also, the Secretary is required to (1) provide commodities in such quantities as can be used without waste, (2) assure that the commodities provided do not displace commercial sales, and (3) minimize, to the extent practicable, the regulatory, recordkeeping, and paperwork requirements imposed on distributing agencies.

Regarding commercial sales displacement, the act requires that the Secretary must not make commodities available in any quantity or manner that he determines, in his discretion, may substitute for the same or any other agricultural product that would otherwise be purchased. As discussed below, this requirement will be difficult to implement.

FNS issued interim regulations implementing provisions of the September 1983 act on December 16, 1983. Although the interim regulations do not provide specific guidelines to the states on eligibility criteria and program controls, the Director of FNS' Food Distribution Division told GAO that the final regulations, scheduled to be issued in March 1984, would provide more specific guidelines. (See pp. 15 to 17.)

DISPLACEMENT OF COMMERCIAL SALES

The effectiveness of the special distribution program in reducing USDA-owned dairy products is diminished to the extent that the products given away displace commercial sales. Displaced sales increase market surpluses which USDA is obligated to purchase under the Dairy Price-Support Program. Such purchases offset, in part, the inventory reductions resulting from the distribution program.

---

[1] USDA makes periodic surveys to determine the types and quantities of food eaten by various income-level households throughout the country.

USDA's inventories of cheese and butter products have continued to increase because the production of dairy products has exceeded sales. At the end of fiscal year 1981, just before the program began, USDA's inventories of butter and cheese totaled about 1.1 billion pounds compared with 1.5 billion pounds at the end of fiscal year 1983. (See p. 22.)

A June 1983 USDA study and most dairy and retail industry officials GAO met with attributed recent declines in commercial sales of cheese, in part, to the special distribution program. The USDA study, which analyzed estimated decreased national sales of American-type cheese of 5.1 percent in the fourth quarter of 1982 and 15.2 percent in the first quarter of 1983, from year earlier periods, stated that it is difficult to assign any cause for the decline other than the surplus cheese donations. The USDA study noted that monthly distributions of cheese averaged about 20 million pounds in the last quarter of 1982, or about 11 percent of national sales, compared with 43.2 million pounds in the first quarter of 1983, or about 28 percent of sales.

Both the USDA study and industry officials said that there had been a long-term upward trend in sales of American-type cheese until USDA began distributing large quantities of cheese under the program. The upward trend in sales of other types of cheese continued.

Based on USDA estimates, national cheese sales increased by 2.3 percent in the second quarter of 1983 and decreased by 16.4 percent in the third quarter of 1983, from 1982 quarters. USDA provided the states with about 151 million pounds of cheese during the second quarter of 1983 and with about 98 million pounds of cheese during the third quarter of 1983. (See pp. 19 to 22.)

There was a general consensus among government and industry officials GAO talked with that products distributed under the program displace some commercial sales. No one had information showing the extent of such displacement by state. GAO believes that no one can calculate actual displacement without detailed information on, among other things, the extent to which the initial recipients give some or all of the cheese they receive to others. Even though a survey of program participants might, in theory, yield such information, GAO did not survey program participants because (1) it was impractical to survey enough participants within the time frame of the study to provide the necessary confidence level for a statistically projectable sample, (2) most states did not keep records on the number or identity of program participants, and (3) there were concerns about the ability of recipients to accurately recall how much cheese they had purchased and consumed.

Because of the lack of empirical data, GAO chose to estimate, with the help of a consultant, the amount of cheese that would have been displaced in eight states under certain stipulated conditions or assumptions. These assumed conditions include, among others, that:

--Participants did not give the cheese they received to others.

--Participating households would forego normal purchases of cheese when equal or greater quantities of the same or similar type cheese were given to them.

○